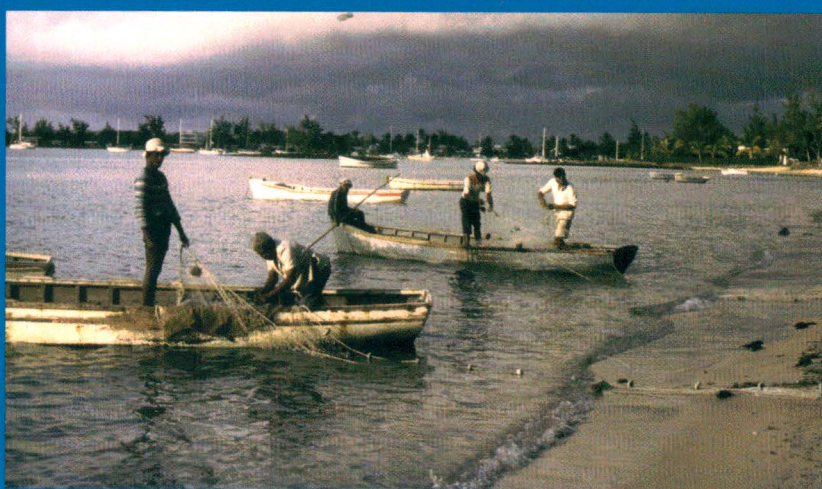
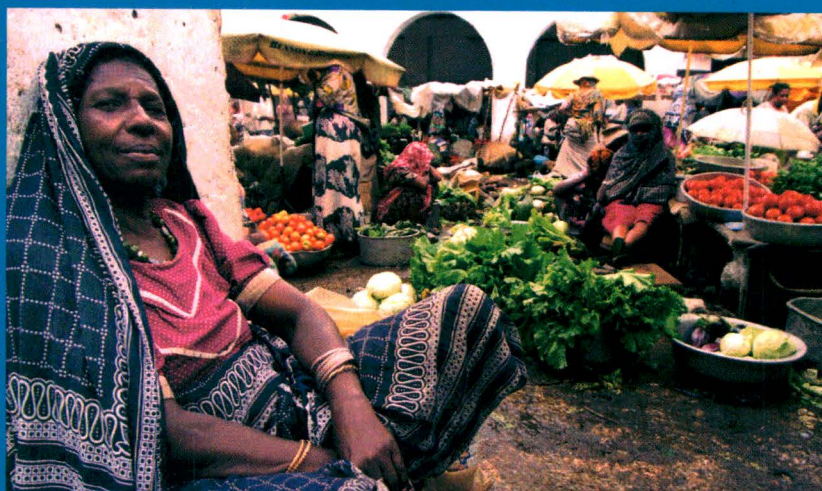
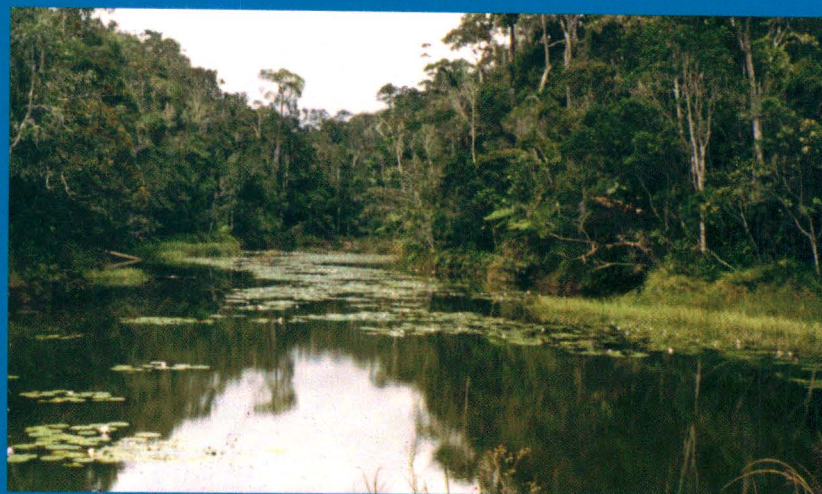




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DEVELOPMENT

The Indian Ocean and the European Union



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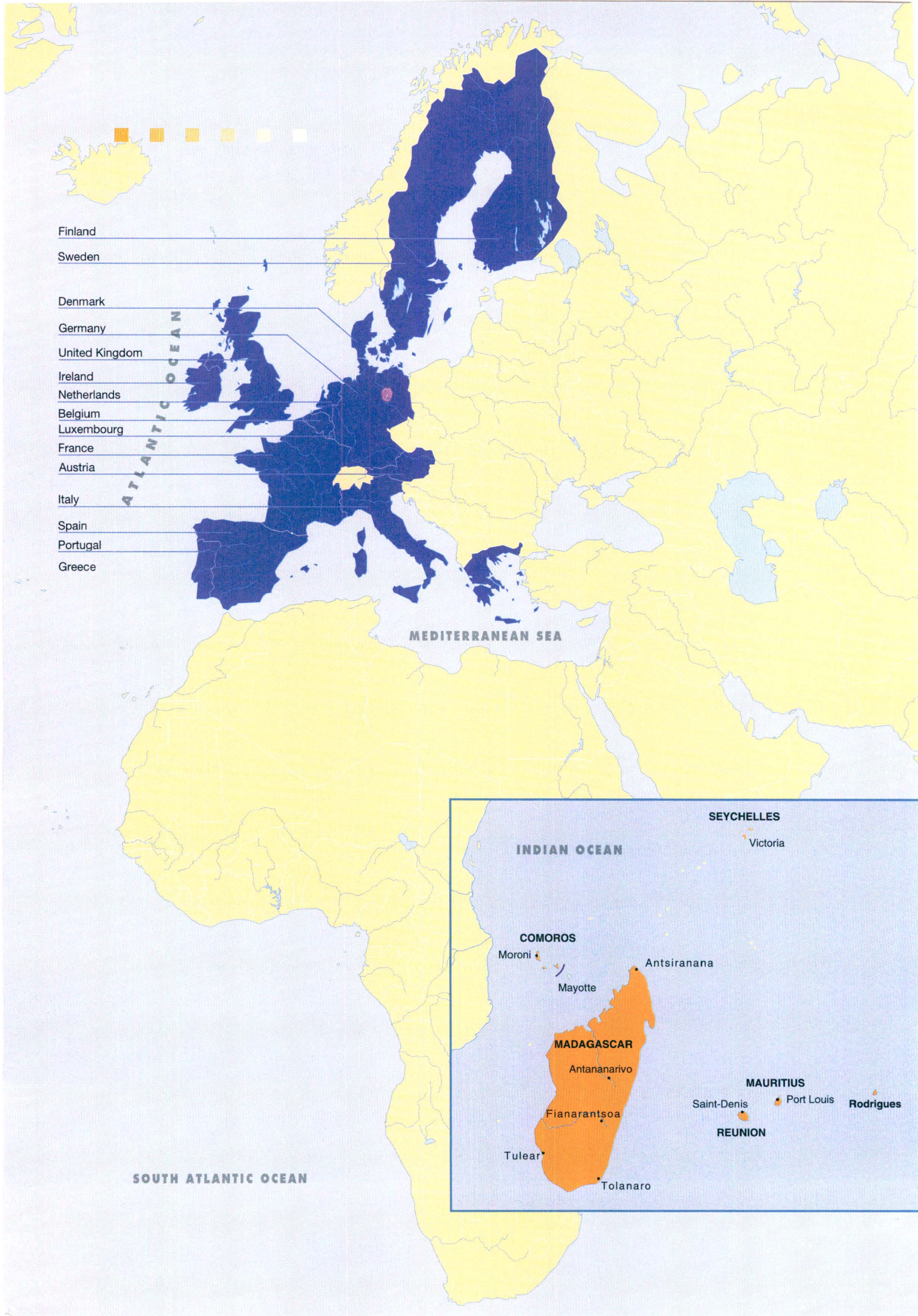
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Contents



■ Introduction	3
■ The European Union and development co-operation	6
■ EU-Indian Ocean co-operation	11
Resources and instruments	12
Comoros	15
Madagascar	22
Mauritius	33
Seychelles	43
Regional co-operation	51
1. The Indian Ocean Commission	51
2. Other regional cooperation bodies	57
3. Réunion and regional cooperation	58



Introduction



This booklet describes the co-operation between the European Union (EU) and the island groups of the south-west Indian Ocean: Comoros, Madagascar, Mauritius, the Seychelles and Réunion.

The EU works through the Indian Ocean Commission (IOC), a body set up specifically to represent these five island groups, and also directly with the islands concerned.

All the programmes described here fall within the institutional and financial framework of the Lomé Convention. This convention, which governs relations between the European Union and the countries of the African, Caribbean and Pacific (ACP) group, formed the basis for the European Community's co-operation policy from 1975 until 28 February 2000.

The Lomé Convention provides for financial and technical assistance, preferential trade agreements, and a contract-based development approach that reconciles economic needs with those of democracy, social justice and the environment. The next chapter covers the Convention in more detail.

The ACP group was founded in 1975 with the signing of the Georgetown Agreement. It originally consisted of 46 countries, and has now grown to 71. South Africa has been partially associated since 1995.

2000 marked the beginning of a new era, with a reform of the EU-ACP partnership aimed at providing lasting support for this privileged instrument of North-South co-operation. The new partnership agreement, the Cotonou Agreement, is designed to strengthen political dialogue, involve local people, combat poverty and promote integration with the regional and global economies.

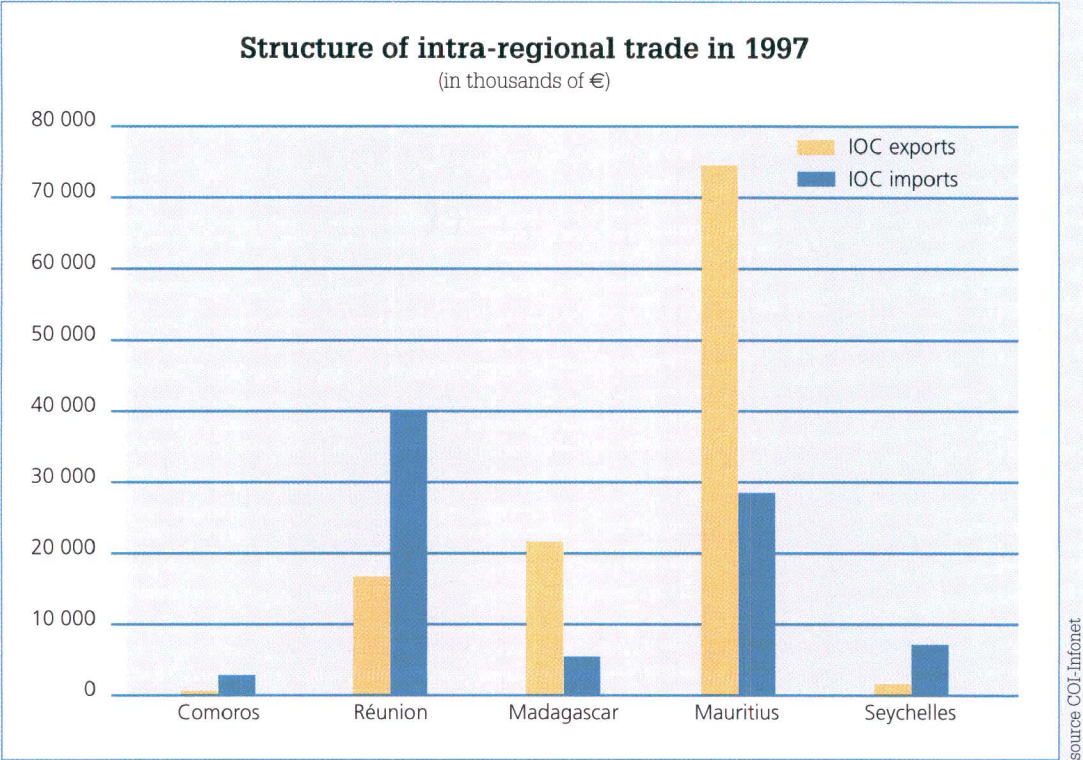
Distance and diversity

Comoros, Madagascar, Mauritius and the Seychelles are independent states and members of the ACP group. Réunion, as both an overseas region and a département of France, is part of the European Union and is represented alongside neighbouring islands on the Indian Ocean Commission. Another island, Mayotte, is geographically part of the Comoros archipelago but has the status of an administrative unit of France and is not a member of the Indian Ocean Commission.

Lying around 10,000 km from Europe, these island countries differ greatly in their history, political situation, size, population, economic resources and level of development.

As holiday destinations, the tropical island paradises of the Indian Ocean offer travellers from the EU the chance to "get away from it all". But the people who live there have to face many of the same problems as the citizens of other ACP countries, aggravated by the remoteness of the islands.

These problems include small and narrow domestic markets, transport problems within islands, between islands and with the rest of the world, shortage of arable land, and over-dependence on external prices and north-south trade flows. Exports still centre on a few basic products, even though some diversification is now noticeable. Many consumer goods and virtually all intermediate products have to be imported.



The islands' share of regional trade is a mere 3% or so. The main exports are food products from Madagascar and textiles and fertilisers from Mauritius, while Réunion is the region's main importer. Capital transfer within the IOC is confined to a few investments in the free zones of Mauritius and Madagascar, though this may increase as a result of recent privatisation.

Development levels vary hugely. The economy of Mauritius has really taken off in the last 20 years, for instance, while Madagascar has sunk into poverty. Average income in the Comoros was € 300 per capita in 1999, compared to € 7,000 in the Seychelles. Réunion's unemployment rate is more than 37%, against 6% in Mauritius. Population growth has hovered around 1% in Mauritius, Réunion and the Seychelles, stabilised at around 3% in Madagascar and risen sharply in Comoros, from 2.8% in the 1980s to 3.75% in 1996.

The structure of the islands' economies is equally diverse. In Comoros and Madagascar, agriculture occupies 80% of their working population and produces 40% of GNP. In the Seychelles the tertiary sector dominates, with 18% of GNP coming from tourism. The Mauritian economy is more evenly balanced between agriculture, industry, tourism and services, and Mauritius is the only country which does not have a chronic lack of foreign exchange.

Basic socio-economic indicators for the IOC countries

	Comoros	Madagascar	Mauritius	Réunion	Seychelles
Surface area (km²)	2 230	587 040	2 040	2 515	455
Population (thousands)	653	15 850	1 160	700	77
GNP per capita (1999 €)	300	255	3 800	4 839	7 200
Population growth (%) - 1995	3.65	3.31	0.89	0.8	1.37
School attendance - 1995					
- primary	75.3	92.3	100	100	na
- secondary	19.9	13.3	59.6	65	na
Economic sectors (% GNP)		<i>Business and services</i>			
	51	49	41	63	43
	agriculture	agriculture	industry	industry	tourism
	40	38	30	11	18

source : EUROSTAT 1997 and DG Development

Poverty is bad, but economic progress brings its own problems. Industrial development, modernisation of agriculture and urbanisation threaten the Eden-like atmosphere of the islands through pollution and habitat loss. Corruption is often a problem, and public spending, once started, cannot be cut without creating new pockets of poverty.

The role of the EU

In the 20 years from 1976 to 1995 the EU transferred € 1,122 million to four of the IOC countries and to the IOC itself. Two large Commission Delegations have been set up: one in Antananarivo (Madagascar) and the other in Port Louis (Mauritius), with a sub-office in Moroni (Grand Comoros).

The EU approach to aid in the IOC countries rests on promoting good governance, encouraging the development of the private sector as an engine of economic growth, and generally helping people to help themselves. This diverse yet co-ordinated approach is seen as the best way to tackle local issues that are also global problems, including trade liberalisation, environmental protection and AIDS.

The individuality of each of the IOC countries has brought competition in areas such as fisheries, tourism, and air and sea transport, but also provides diverse opportunities for growth, such as through the availability of capital in Mauritius or cheap labour in Madagascar. Yet the islanders realise that to succeed in the difficult process of sustainable economic growth, they need the regional solidarity which their geography, history and culture can foster.

The Indian Ocean is a strategic area where Europe meets both Africa and Asia. As the world changes politically, with the end of the Cold War and apartheid, and economically, with globalisation and the creation of the World Trade Organisation, the islands of the Indian Ocean are already weaving new relations with countries such as India, China, Australia, Southern Africa and the Arab world. The European Union, meanwhile, intends to help the IOC countries enter this new world as painlessly as possible.

The European Union and development co-operation



The Union in Europe

The European Union is currently made up of 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

The process of union began with the six signatories to the treaties establishing the European Coal and Steel Community (ECSC, 1951), the European Atomic Energy Community (Euratom, 1957) and the European Economic Community (EEC, 1957).

From the beginning, the founders planned a European union – ultimately a monetary and political union – in which goods, people, capital and services could all move freely. They also envisaged common policies in areas such as trade, agriculture, fisheries and transport.

In 1986 the Single European Act extended the Community's remit and called for the creation of a Single Market by the end of 1992. In 1992 the members of the EEC signed the Treaty on European Union, commonly known as the Maastricht Treaty. The EEC lost its "economic" tag to become the European Community (EC), and a new European Union (EU) was set up alongside the European Commission, the ECSC and Euratom.

The EU has the same membership as the old EEC, but has wider powers to deal with justice and home affairs, economic and monetary union, and common foreign and security policy. In 1997 the Treaty of Amsterdam paved the way for the entry of new members from Central and Eastern Europe.

Much of the responsibility for development policy was developed by the EEC long before the creation of the EU. In this document we will therefore sometimes refer to the role of the EC as distinct from that of the EU.

The EU on the international stage

The EU is committed to fostering international trade and sustainable economic development in poorer countries. Following successive rounds of cuts in import tariffs, its average tariff, at 5.6%, is among the lowest in the world. It is a member of the World Trade Organisation (WTO) and the various international commodity pacts, and provides funds of its own to help stabilise the export earnings of many commodity-producing countries.

Free trade is not the only method of promoting economic development in Third World countries. Part of the EU's budget goes on aid programmes in the southern and eastern Mediterranean, Asia, Latin America and the 71 African, Caribbean and Pacific (ACP) States covered by the Lomé Convention.

Under the Convention, the bulk of aid to the ACP States and the 20 associated "Overseas Countries and Territories" (OCTs) actually comes from a special European Development Fund. However, these countries also receive a share of an increasingly generous Community budget that helps finance operations by non-governmental organisations and special types of assistance such as food aid, restoration of infrastructure, protection of tropical forests and the fight against AIDS.

Some EU Member States are also major bilateral donors, independently of the EU. Together with EU aid, this means that EU members account for just over half of official development assistance worldwide. Approximately 15% of the total comes from the Community's own development aid funds.

The fourth Lomé Convention (1991-2000)

All previous European co-operation with the ACP countries has taken place within the context of the Lomé Convention. The Convention evolved over the years, and its fourth incarnation (Lomé-IV, 1991-2000) was notable for four key characteristics :

- its ten-year time span allowed the participating countries to plan their economies with more confidence;
- it was non-aligned, and respected the freedom of the partners to choose their own economic and political systems and development models;
- it combined a wide range of co-operation mechanisms to meet varying needs. This allowed the ACP countries to choose their development mechanisms to suit their own priorities;
- it was based on institutions (the Council of Ministers, the Committee of Ambassadors, the Joint ACP-EU Assembly and a general secretariat based in Brussels) in a good position to raise issues with the various governments and the European Parliament.

Mid-term negotiations in 1995 added provisions on:

- institutional and political issues (democracy, political dialogue and human rights);
- trade (trade growth and the extension of special terms for virtually all exports from the ACP countries);
- programming of aid (inclusion of EU objectives and priorities, and increased flexibility in using resources); and
- the actual amount of aid (see box, The European Development Fund).

The European Development Fund

The European Development Fund (EDF) finances projects and programmes in the ACP States and OCTs, using money contributed by the EU Member States. The EDF is administered by the Commission, except for its risk capital operations, which are managed by the European Investment Bank (see below).

The EDF was first set up in 1958 and is replenished every five years. Until 1990 each five-year EDF backed a five-year Convention, but with Lomé IV in 1990 came a change: the new ten-year Convention would be funded by two financial protocols (1990-1995 and 1996-2000), the seventh and eighth EDFs respectively.

In recent years the EDF has grown steadily larger:

	million €
EDF IV	3,222
EDF V	4,818
EDF VI	7,500
EDF VII	10,940
EDF VIII	13,132

The European Investment Bank (EIB), whose capital is provided by the Member States, raises funds on capital markets to grant loans to the countries of the EU, Central and Eastern Europe, Latin America and the Mediterranean, as well as the ACP States and the OCTs. Each EDF is accompanied by loans financed by the EIB out of its own resources. The EIB guaranteed a maximum of € 1,225m for the period 1991-1995 and € 1,693m for 1996-2000.

From the start, virtually all the EDF was allocated to the various ACP countries to finance their national and regional development programmes. A fixed amount was granted to each country and region at the start of the new EDF, and paid in two instalments. The balance was used as dictated by circumstances, typically in support of structural changes, transfers to stabilise export earnings, SYSMIN loans (for mining operations), emergency aid or aid to refugees (see below).

Beyond Lomé : the new ACP-EU partnership agreement

From 1996 to early 2000 the renewal of the Lomé Convention was the subject of intense discussion, encouraged by a European Commission Green Paper on the subject. Finally, the ACP-EU ministerial conference of February 2000 produced a new agreement, which was signed in June 2000 in Cotonou, the capital of Benin.

The new ACP-EU partnership agreement draws on 25 years of experience. Past Lomé Conventions played a unique and important role in North-South relations, but an objective assessment of their success, in the light of new world events and new expectations by policymakers and the public, suggests the need for change.

The new agreement, known as the Cotonou Agreement, will run for 20 years, with a review and a new financial protocol every five years. Some areas may also be reviewed annually, at the request of the ACP-EU Council of Ministers. A timetable has been drawn up for the negotiation and conclusion of regional trade agreements. A balance of € 9.9 billion from previous EDFs has been added to the € 13.5 billion in new resources available for allocation over an initial seven-year period, subject to both sides amending the procedures for delivering aid.

Five pillars for a new agreement

Combining politics, trade and development, the new partnership rests on five pillars:

- a global political dimension;
- the promotion of participative approaches;
- emphasis on reducing poverty;
- a new framework for economic and trade co-operation; and
- reform of financial co-operation.

The following section expands on each of these in turn.

Five pillars for a new agreement

Responsible government and open political dialogue are seen as essential to effective co-operation. At its most basic this means respect for human rights, democratic principles and government by the rule of law. These principles are all essential to the partnership, and the EU will take immediate measures if they are violated. There is also a mutual commitment to the promotion of peace, avoidance of conflict, and efficient management of public affairs, including the control of corruption.

The participation of citizens and economic and social organisations is essential to the partnership's success. To encourage this participation, the plan is to tell everyone about the new agreements, to consult widely on the economic, social and institutional reforms and policies supported by the EU, to encourage non-governmental organisations to take part in programmes and projects, and to encourage links between partners in ACP and EU countries.

The number one objective of the new partnership is to reduce poverty, and the ways in which this can best be done will determine the strategies for co-operation. The need is for an integrated approach that takes account of the complex nature of poverty, and this approach will concentrate on three areas of co-operation: economic development, social and human development, and the integration of regional co-operation. Objectives for every area of co-operation are equality between men and women, the sustainable management of the environment and the strengthening of institutional capacities.

The existing trade preferences will continue for a transitional period of eight years. For the remaining 12 years of the partnership they will be replaced by regional economic partnership agreements (REPAs)

in line with WTO regulations. By 2005 at the latest the 39 least-developed ACP countries (LDCs) will have zero-duty entry to the European market for nearly all their exports. The above trade arrangements will be evaluated and implemented according to a timetable which begins in 2002. Until then, during a two-year preparatory period, regional integration processes and the ACP countries' capacity to negotiate their integration into the world economy will be strengthened.

Financial instruments will be rationalised to make them more flexible and coherent, and all resources will be channelled through two mechanisms: global non-repayable subsidies on one hand, and risk capital and loans to the private sector on the other. Funds will be made available according to an objective system of evaluation, needs and performance criteria.

As well as its own national co-operation strategy, each ACP country will have an indicative operational programme or NIP (see below). In each case the authorising officers and heads of delegations will continue to be responsible for implementation, but the people actually involved in each project will play a bigger part in the annual cooperation review.

The existing instruments for supporting export revenue, STABEX and SYSMIN, will be replaced by new mechanisms under the global subsidy structure. This should make it easier to anticipate needs and deal with them more promptly.

Summary of the new agreement

In summary, the main innovations of the new partnership agreement between the EU and the now 77 ACP countries are its plans to:

- strengthen the political dimension;
- explicitly combat corruption;
- promote participative approaches;
- ensure that citizens are consulted on EU-backed reforms and policies;
- refocus development policies on strategies to reduce poverty;
- base the allocation of resources on each country's political performance as well as its needs;
- create a climate of easy investment to support the growth of the private sector;
- rationalise financial instruments and introduce a new system of rolling programming to permit regular adjustments to the co-operation programme;
- decentralise administrative responsibilities in the direction of local people;
- improve the political framework for the growth of trade and investments; and
- improve co-operation in all key areas of trade, including new themes such as labour standards and links between the environment and trade.

Financial resources of the new agreement (million €)	
9th EDF	13,500
Long-term budget	10,000
Regional budget	1,300
Investment facility	2,200
EDF balance	9,900
EIB own resources	1,700



European Union- Indian Ocean co-operation



Resources and instruments

1. Indicative programmes

Most EU assistance to the ACP countries comes from the European Development Fund (EDF), set up each time the Lomé Convention is renewed or reviewed. Programmable resources from the EDF are shared out among the national indicative programmes (NIPs), regional indicative programmes (RIPs) and “all ACP country” programmes. The latter include across-the-board measures on issues such as AIDS or drugs.

An NIP is a contract setting out the commitments of the EU and the ACP partner, with a timetable, in pursuit of agreed objectives. Resources are allocated to NIPs according to criteria including per capita gross national product (GNP) and population. Priority areas (focal sectors) and secondary areas (non-focal sectors) are chosen during discussions with each government. The progress of NIPs is measured by, among other techniques, the rate at which the funds earmarked for them are paid out.

RIPs underpin co-operation between ACP countries in the same region and supplement the countries’ own programmes. The EU’s partner in this case is the Indian Ocean Commission, an organisation set up to serve the Comoros, Mauritius, Madagascar, the Seychelles and Réunion.

The Indian Ocean’s national and regional indicative programmes for the 8th EDF were signed between February and April 1997. The information presented below applies to the entire period of the Lomé Convention.

2. Financial instruments

European Union co-operation provides ACP countries with a wide range of complex financial instruments.

Decentralised co-operation has grown in importance since Lomé III and is particularly suited to tackling poverty because it involves projects and microprojects in areas such as housing, irrigation, healthcare and education. Madagascar and the Comoros provide good examples of the success of decentralised co-operation.

EDF financing is not confined to programmed aid: another range of instruments provides a flexible response to a variety of economic problems. One such is **STABEX**, the export earnings stabilisation system. In the IOC region, cash crops such as vanilla, cloves and coffee account for a large share of the balance of trade, yet are vulnerable to fluctuations in world prices, bad harvests and competition from synthetic substitutes. STABEX works by making up the difference between a reference price and the actual yearly earnings for each individual ACP country and product.

Since Lomé IV, transfers provided by STABEX have not been repayable. They account for 14% of the seventh EDF - about € 4m for the Comoros and € 52m for Madagascar. STABEX transfers pay for measures to raise productivity and crop quality, and to improve dialogue between the different parts of the industry concerned.

Emergency aid is often called on in an area where only the Seychelles are safe from devastating cyclones. This comes from the EU budget, as does **food aid**, whether channelled directly (through governments) or indirectly (through NGOs). After disasters such as floods, drought or locusts, food aid brings in cereals, milk, oil and other staples. In the interests of improving nutrition and the overall reliability of supplies, a broad food-security programme

is also being implemented to co-ordinate the efforts of the Commission and Member States. The regional office is in Madagascar.

Structural Adjustment Facilities can be offered by the European Union to ACP countries which have signed agreements with the World Bank and the IMF. These support priority social sectors (mainly education and healthcare) threatened by public-spending cuts. Hard currency is brought in through import programmes, converted into local currency and placed in a "counterpart fund" to complement the national budget in the specified areas.

Relations between the IOC countries and the World Bank and the IMF can be stormy. At times the EU finds itself a particular country's only multilateral aid donor as it battles for a resumption of talks with these institutions.

Since 1991 non-reimbursable aid as a proportion of the whole EDF allocation has risen from 75% to 92%. The **European Investment Bank** (EIB) offers advantageous financial terms to ACP industries, in the form of either risk capital or interest-rate subsidies (interest rates were halved under Lomé IV). These resources for investment in production are channelled not just through state-owned banks but increasingly through the private sector. The amount available is set out in an annex to the five-year NIP.

3. Trade preferences

The general trade provisions of the Lomé Convention are supplemented by individual agreements giving ACP countries preferential access for certain goods. These agreements run for periods that are independent of the Lomé Convention, though they are reviewed against the general background of free trade. In the case of the Indian Ocean, individual agreements cover four vital economic sectors: fisheries, sugar, livestock and textiles.

Fisheries agreements allow vessels from the Member States to catch tuna and other fish in local waters under mutually satisfactory conditions. Payments for fishing licences and tonnages are a significant source of revenue for the IOC countries; agreements run for three years and are regularly renewed. These commercial agreements complement co-operation policy by including provisions on the diversification of fishery resources. Examples include demarcation of areas for non-industrial fishing, and programmes to improve the organisation, training and equipment of local fishermen.

The **Sugar Protocol** commits the EU to importing agreed quantities of cane sugar at guaranteed prices, with a corresponding supply commitment by the ACP countries. The Protocol is valid indefinitely, independently of the renewal of the Lomé Convention. Among the IOC countries, Mauritius has benefited most, followed by Madagascar. At present the EU guaranteed price is more than double the world price, but, in the context of greater trade liberalisation, Protocol arrangements may be difficult to maintain. The sugar industry is therefore being encouraged to improve productivity to offset any fall in price.

The **Protocol on beef and veal** covers a traditional Malagasy resource, reducing import duties other than customs duties by 92% on a fixed quantity of boneless meat from the *Grande Île*. The quota, set at 7,579 tonnes per year in 1997, is never filled, despite a one-year grace period for deliveries. One rea-

son is that the meat does not always meet EU health requirements, so herd quality and abattoir hygiene need to be improved if this Protocol is to be made fully effective.

For textiles, a key industry in the establishment of free-trade zones in Mauritius and Madagascar, the **Multifibre Arrangement** provides a long list of working and processing techniques that can be applied to imported raw materials to yield “products originating in the ACP States”.

Targeted measures

Under the Lomé Convention all four ACP countries of the Indian Ocean are eligible for further provisions and targeted measures intended “to support island ACP States in their efforts to overcome the natural and geographical difficulties and other obstacles hampering their development”. Some are also eligible for special treatment as least-developed countries. Mauritius is classified as middle-income and is therefore ineligible, while Seychelles has been ineligible since November 1995. The Comoros are eligible, as is Madagascar (since November 1995).

EDF co-operation in the Indian Ocean has the same priorities as elsewhere: agricultural development, infrastructure, the private sector, the environment and social sectors. However, the nature of the region means that extra emphasis is laid on fisheries,

small and medium-sized enterprises and services. The service sector includes tourism, which has been recognised as an economic activity in its own right since Lomé IV.

Total allocation for EU-Indian Ocean co-operation

(in millions of €)	Lomé I 76/80	Lomé II 81/85	Lomé III 86/90	Lomé IV 91/95	Lomé IV 96/2000
NIP	93.2	116.6	167.7	192.9	261.0
RIP + budget	8.3	20.0	29.0	30.0	30.0
Other EDF + EIB	38.0	51.5	106.0	154.8	151
BUDGET LINES food aid emergency aid NGO, Aids	29.2	23.6	24.5	36.7	66.5
TOTAL	168.7	211.7	327.2	414.4	508.5



The Comoros Islands

I. Overview

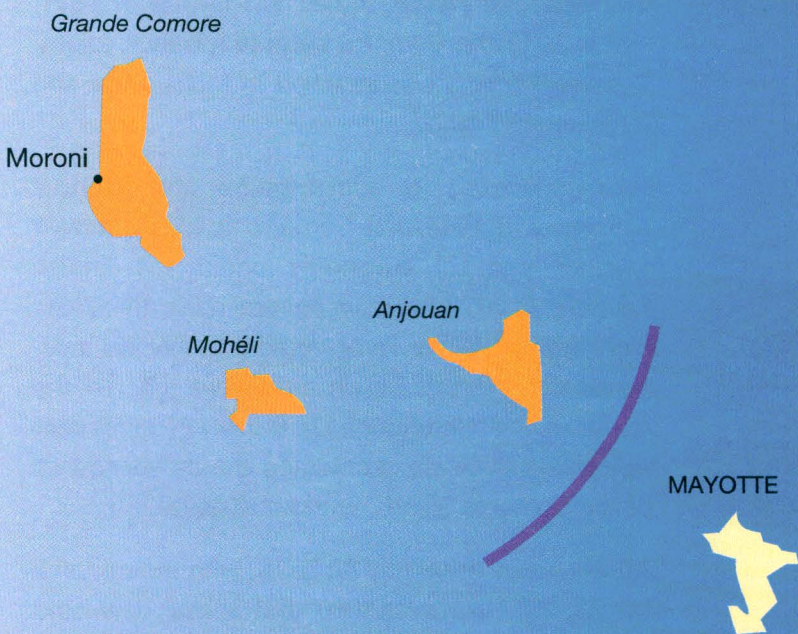
1. Kingdom of the warring sultans

Legend has it that the Comoros Islands owe their name to the Arab seamen who, approaching the bare black shores which surround the Kartala volcano, called them *Djazair al Qamar* - the islands of the moon. After the first Bantu settlement came waves of migration from Arabia and the Persian Gulf, then from Indonesia, bringing Islam to this archipelago situated to the north-east of Madagascar, at the mouth of the Mozambique Channel.

The Comoros consists of four islands. The largest, Ngazidja (Grande Comore), is the seat of the Islamic Federal Republic of the Comoros, which includes two other islands, Mwali (Mohéli) in the south and Ndzuanani (Anjouan) in the east, each administered by a governor. Maoré (Mayotte), the closest to the coast of Madagascar, opted to remain French in the 1974 referendum.

PROFILE

Independence	1975
Head of State	Mohammed Taki
Capital	Moroni
Languages	Comorian French
Currency	Comorian franc
Exchange rate	€ 1 = 491 KMF (October 2000)



Moroni port.

The islands are densely-populated, with more than 680,000 inhabitants in an area of 2,230 km², or more than 300 people per km², in 1999. The history of this small territory is marked by an almost uninterrupted succession of clan wars and *coups d'état*.

The colonial period was coloured by rivalry between France and Britain, with massive allocations of land to planters in return for payment and protection. To this day the problem of land ownership remains unsolved. The French settled in Mayotte in 1841, and in 1912 the Comoros became a French colony. Two years later it was attached to Madagascar and forgotten by France.

After recovering its administrative and financial autonomy in 1946, the Comoros gradually moved towards political autonomy under the Fourth Republic. In 1972 the main political rivals, the Green Party and the White Party, voted together for independence, but the French authorities ignored the results of the referendum. On 6 July 1975 President Abdallah unilaterally proclaimed the independence of the Comoros Islands, without Mayotte.

Abdallah was ousted by Ali Sohili, who brought in a Marxist-style administration and Islamic law, and fought traditional customs such as "chieftainries" and "grand weddings". After Sohili's assassination in 1978 Abdallah returned to power, only to be himself assassinated in 1989. With Mohamed Djohar as interim President, French troops moved in to take control away from mercenaries led by Bob Denard.

Djohar was elected President in 1990 and remained at the helm until 1996 when he was defeated by the current president, Mohamed Taki, after countless plots and economic and financial scandals.

Two recent crises complete this chequered history: the island of Anjouan's proclamation of independence in the summer of 1997, and the takeover of power by Colonel Azali Assoumare in April 1999. The international community is considerate towards the efforts the Islamic Federal Republic of the Comoros is now making to re-establish the rule of law and control over public finances.

2. Bitter perfume

Nature in the Comoros Islands conjures up images of peace: white beaches fringed by coconut palms, multicoloured tropical gardens, myriad shells and fish, including the famous coelacanth which dates back 350 million years, bush babies and sea turtles. The perfumes of vanilla and cloves mingle with that of ylang-ylang flowers, one of the country's oldest sources of wealth. As well as natural beauty, visitors can also appreciate the islands' history and culture.

Exports of tropical products are the mainstays of the national economy. In 1997 agriculture and fisheries accounted for more than 40% of GDP and employed 80% of the active labour force. Trade accounted for 31% of GDP, the public sector 16% and industry 6%. France and the United States are the major purchasers of Comorian vanilla, essential oils and cloves.

But cash crops, which for a century have been helping to destroy the forest, are becoming less profitable as competition increases. A kilo of dried vanilla was worth CF 13,215 in 1995 compared with CF 22,144 in 1989. Coconut, planted at the time of the sugar crisis, now supplies only small local soap factories. Upland rice crops cause erosion and do not provide a satisfactory yield. The 8,000 Comorian fishermen are poorly equipped, and the islands have no energy or mineral resources.

Revenue from tourism is jeopardised by poor services for transport, water, electricity and health, and the unstable political climate. The number of visitors, which rose from 7,500 in 1988 to 27,600 in 1994, dropped by 15% after the events of 1995. Of the 23,700 visitors in 1996, nearly 30% were Comoro Islanders now living abroad, mainly in France.

As always, it is the poorest people who suffer most from the country's financial crisis. Insufficient foreign exchange, poor management, wage arrears and public service staff cuts have had a knock-on effect in vital sectors such as education and health.

The economic and social situation in the Comoros is worrying, despite some recent progress - including the beginnings of a multi-party political system.

Socio-economic indicators

Life expect.	Adult literacy	Sec. school attendance	Access to drink. water	GNP growth		GNP/ capita (\$)	Unempl. rate (1991)
60	56.2	19.9%	43%	1995	1999	96 : 440	30%

source : The Economist Intelligence Unit

The external debt burden (80% of GDP in 1990, 79.2% in 1996) weighs heavily on the balance of payments, and public investment, which is very dependent on international aid, fluctuates wildly. The state still controls most development, despite steady growth in private investment (35% of total investment in 1984, 78% in 1995) as a result of measures such as small loan schemes and the adoption of an investment code. Since 1989 the Comoros has negotiated some adjustment measures with the Bretton Woods institutions.

The population of the Comoros is booming: annual growth averaged 2.7% between 1980 and 1996, and reached 3.75% in 1996. More and more young people are choosing emigration to cover the cost of a prestigious “grand wedding”, or simply to find work.

Although the Comoros Islands remain the most important producers of ylang-ylang in the world and the second biggest vanilla producer, export earnings cover only 40% of the country’s import needs. Sustainable economic and social development requires support for exports, agricultural diversification, and better infrastructure and services for tourism and the manufacturing sector.

II. Comoros and the EU: steady co-operation

As long ago as 1958, the European Community began contributing to the development of the Comoros, mainly through roadbuilding. In 1976 it helped to re-house the “Sabenas”, Comorian refugees who had fled from Madagascar after the terrible riots in Majunga. In all, 16,000 people - more than 5% of the population - were resettled in the Comoros.

Although most aid comes directly from individual Member States, especially France, EU co-operation has steadily increased since Lomé I. Rural development and communications are the two priority sectors supported by successive EDFs. Rural development, including a project to improve export crops, accounted for 37% of 7th EDF resources. Communications accounted for 34%, including the construction of a maritime access route to Mohéli and road repairs on Anjouan. There has also been a lot of support for social issues.

In addition to NIP allocations and successive RIPs, the Comoros has also received STABEX transfers, EIB risk capital, emergency relief and food aid. ECHO,

Resources allocated to EU-Comoros co-operation

(million of € committed, excluding RIP)					
	Lomé I	Lomé II	Lomé III	Lomé IV 91/95	Lomé IV 96/2000
NIP	6.29	14.5	20.5	23.5	27.5
STABEX			9.56	4.27	4.89
EIB			2.0	3	3
SAF				6.5	-
Budget lines	6.4	7.1	2.7	3.4	-

the EU's transverse programme, allocated € 2m between 1997 and 1999. In 1997 and 1998, for example, emergency aid through ECHO helped to improve local health structures, provided food supplements for children under five in Anjouan, and gave technical support during a cholera epidemic.

Since 1999 the European Union has financed a Technical Management Unit. This operates under the authority of the National Authorizing Officer and seeks to promote more efficient management and co-ordination of Community aid.

The EU has ensured that funds are shared among all three islands of the Republic. Under the 6th and 7th EDFs, 60% went to Anjouan for the DRINEA project on rural development in north-west Anjouan, now due for completion. 11.5% went to Mohéli, including over € 3 ms for improving the island's access to the sea. The € 2.68m microproject programme and the € 5.4m programme to develop food crop structures covered all three islands.

Since 1976 considerable funds have been concentrated on rural development to improve breeding, promote food crops, develop maize farming and support cash crops. The latter objective, which was supported by STABEX for three years, aimed to improve the production and distribution of vanilla and ylang-ylang. Although the action benefited exporters, mainly, it also helped producers and distillers of essential oils. Increased professional contacts, quality improvements and a better knowledge of the international market are the keys to the development of this sector.

The last NIP (8th EDF), signed in April 1997, allocated € 27.5m in aid targeted, in accordance with the other donors, to two priority sectors: opening-up of land-locked regions and the environment. However, the commitment rate remains low and projects suffered from political instability. In an effort to improve this, programmes will in future focus on institutional support for the government and will make greater use of decentralised, co-operation, which is a more flexible instrument.

1. Fisheries

A new Fisheries Agreement is signed every three years between the EU and the Comoros. This makes an important contribution to the trade balance, though climate and economic constraints cause the figures to fluctuate.

Period	Catch weight (tonnes/year)	EC Contribution (million €)	Number of tuna boats	
88-91	6,000	1.4	40	
91-94	6,000	1.4	42	
94-97	4,500	1.08	37	
98-01	4,500	1.08	44	
Effective catch (tonnes)				
1992	1993	1994	1995	1996
4,683	844	3,606	1,491	3,143

2. Infrastructure, environment and society

Infrastructure, both economic and social, was the target of the 4th, 5th and 6th EDFs. An international telephone exchange, for example, was entirely financed from this aid. Communications improvements absorbed 34% of funding from the 7th EDF, while the RIP funded another international telephone exchange.

For the period 1996-2000, at least 50% of the NIP is earmarked for transport infrastructure: road maintenance, improving the facilities of the port of Moroni and the safety of Anjouan and Mohéli airports, and support for the Public Works Department.

But while infrastructure was improving, the environment continued to deteriorate. A report by the Comoros Environment Department in 1993 described increasingly difficult access to water and firewood, the disappearance of sand and certain types of rock, the destruction of flora and fauna, and damage to historic buildings.

Environmental damage is often a direct result of poverty. Poor people take firewood from forest trees

as the cheapest source of energy, loot building stone from historic monuments, use dynamite for fishing and even sell the sand from beaches. As resources gradually dry up, small ylang-ylang producers have to go deeper into the sparse forests to find firewood for distillation. Fish near the coast have become scarce, yet local fishermen are not equipped for off-shore fishing. The destruction of forests and historic buildings harms tourism.

Steps have already been taken to halt this damage, both in the countryside and the towns, but more needs to be done. Under the new co-operation agreement, around 30% of the resources available from the 8th EDF will be allocated to the environment, with the threefold aim of protection, clean-up and management. Efforts will focus on conservation and regeneration of forests, management of marine and coastal areas, management of household waste

and sewage in towns, promotion of building materials other than sand and coral, micro-hydroelectric power stations in Anjouan and Mohéli, and institutional support for the government's environmental policy.

Funding has always been earmarked for health and education. 8th EDF funding for non-focal sectors, for example, will include 15% for decentralised co-operation and support for health services, 4% for private sector support (finance and professional structures for SMEs), and 1% for training in the two focal sectors, communications and environment, and in the legal system. To help economic diversification the EIB can also make available € 3m to projects in the private sector.

In addition, it is envisaged to support micro-credit initiatives designed to encourage productive activities.



3. Support for associations

A two-year STABEX-funded programme for structuring cash crop distribution channels, which began in February 1997, includes support for Comorian associations.

Traditional associations (e.g. for rural development or usurs' associations) can be found in almost every village. Instead, they organise mutual assistance for work in the fields, organise social events and finance small-scale community works such as schools, healthcare centres, markets and mosques. They collect contributions from everyone, especially emigrants.

Some of these associations have formed the basis for community development steering committees, financed by a World Bank programme, that have with varying degrees of success mobilised the local population on a long-term basis. Others have more specific aims, such as environmental protection or promoting the role of women in the economy.

The aim of the EU-funded programme is to strengthen the institutional capacity of these associations and to ensure that their activities do not overlap.

Microprojects for real people

The NIP-funded Microproject Programme is aimed at small-scale projects for grassroots communities. Supported projects have to show real economic and social benefits to ordinary people, who must support the projects from start to finish.

The local community must contribute at least 25% of the total cost of each project, either in cash or in kind. The remaining 75% from EU sources may not exceed € 300,000 per project.

By the end of 1998 there were 33 microprojects across a wide range of sectors, including agriculture, livestock, fisheries, environment, electricity and water for villages, education, health, transport, communication, tourism, youth and sports.

Typical projects to be seen on a tour of Grand Comore are new village schools, markets and water standpipes, dykes to protect beaches from erosion, new seeds for farmers, and salting and smoking plants for fishermen.



AP Photo/Adil Bradlow

Tools for doing this include training courses, meetings with funders and brainstorming sessions.

The first associations to be supported are those with clear aims, such as the ACTIV livestock farming associations; the Women and Development network; an emerging co-ordination body for environmental protection associations and CASM in Moroni, a social action centre producing educational television using semi-professional equipment. CASM is financed jointly by France, the World Bank and the EU.

Sanduks and microcredit

Sanduks are “money chests” managed by village communities to fund projects of their own choosing. The first 10 *Sanduks* were set up in 1993 with the support of the Caisse Française de Développement (CFD) to cover external loans. For every Comorian franc from the villagers, the CFD puts in four.

Sanduks caught on quickly: by 1995 there were more than 1,300 members, the credit repayment rate was close to 95%, and a Union of *Sanduks* was set up. The EU now plans to use its microcredit scheme to extend the *sanduk* system.

By encouraging private enterprise, *sanduks* help to diversify the economy and create jobs. Villagers have used their *sanduk* savings for projects including cash crop farming, small businesses, renovating houses for rent and setting up a jewellery workshop.

4. Emergency Aid

Emergency aid worth € 2m was provided for Comoros between 1997-1999. In 1997 and 1998, for example, emergency aid was provided for local clinics and dispensaries, as well as in the form of nutritional support to young children in Anjouan and of technical support in combating a cholera epidemic.

Comoros suffers from many of the constraints inherent to its status as a small, multi-island state which it is important both to consolidate and to open up to the world. Since 1999 the European Union has financed a Technical Management Unit, attached to the NAO’s Office, which seeks to ensure that EU aid is managed in the most efficient manner.



Madagascar

I. Overview

1. The Grande Isle

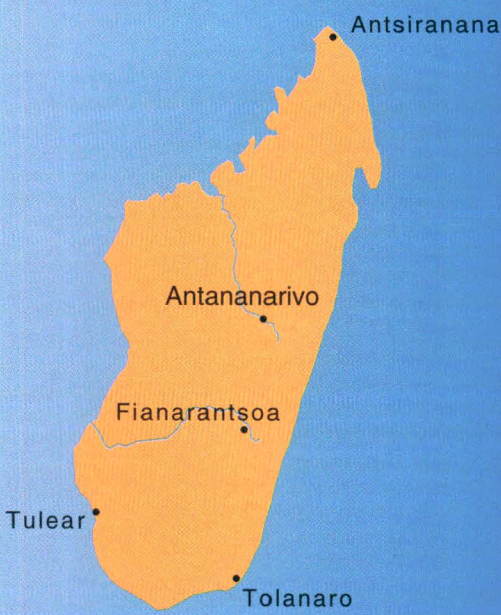
Madagascar is the fifth largest island in the world. It measures 1,580 km from north to south, 450-580 km from east to west, and has a total area of 587,000 km² - equivalent to that of France and the Benelux countries combined.

Madagascar's semi-arid southern tip lies below the Tropic of Capricorn and is separated from Africa by the 400-km-wide Mozambique Channel. The temperate central plateau at 1,200 m, with three isolated peaks of over 2,500 m, descends gradually to the west coast, where the climate is warm and dry, and steeply to the east coast, where there is year-long rainfall.

Over the centuries the island has been on the path of several population movements by African and Indonesian peoples, producing huge ethnic diversity. Recent history is fraught with antagonism between

PROFILE

<i>Independence</i>	1960
<i>Head of State</i>	Didier Ratsiraka
<i>Capital</i>	Antananarivo
<i>Languages</i>	Malagasy French
<i>Currency</i>	Malagasy franc
<i>Exchange rate</i>	€ 1 = 5,891 MGF (October 2000)



PANTELIS VASSILOU

the inhabitants of the high plateaus and the *côtiers* on the coast. Social tensions and political procrastination are commonplace features of Malagasy society.

Despite these tensions, the country's 14 million inhabitants are bound together by the Malagasy language, village solidarity and traditional customs, such as taboo and the turning over of the dead, which the colonial Protestant and Catholic churches never managed to eradicate.

When the French founded Fort-Dauphin in 1643, the island was a patchwork of small kingdoms. By the end of the 18th century practically all of these had been united under the Merina dynasty. Initially a protectorate, Madagascar became a French colony when General Galliéni imposed military rule in 1896. The struggle for independence was marked by many tragic incidents before Philibert Tsiranana became the first President of the independent Republic in 1960.

Didier Ratsiraka inaugurated the Second Republic in 1975 at a time when the country had symbolically severed its ties with France and was courting communist aid. Re-elected in 1982 and 1989, Ratsiraka gradually abandoned the socialist model but lost the 1992 elections after a long crisis instigated by the Forces Vives alliance. But the Forces Vives candidate, Albert Zafy, failed to assert his authority, and Ratsiraka officially regained control in February 1997.

This political instability weighs heavy on the people of Madagascar. Despite improving socio-economic indicators, they have so far never been able to reap the potentially fabulous wealth of the country's natural resources. Madagascar's main wealth lies in rice, shrimps and gold. Other important resources include livestock, vanilla, cloves, coffee, tourism and minerals.



2. Agriculture, livestock and fisheries

Though farming occupies some 80% of the population, it produces only a third of GNP and barely assures Madagascar's self-sufficiency in food. The agriculture sector is made up mainly of family smallholdings, and less than 30% of the produce goes to market.

Malagasy people are said to eat more rice than the Chinese, and shimmering green rice paddies with their ochre-coloured tracks make up two-thirds of Madagascar's farmland. Yet production of paddy rice has stagnated, rising from 2.1 million tonnes in 1986 to 2.4 million tonnes in 1992, at a time when the population was growing by 350,000 people a year. Soil fatigue, makeshift irrigation and transport difficulties more than offset the initial success of upland rice plantations.

Thanks to the diversity of soils and climate, everything grows in Madagascar: vegetables, fruit, tea and coffee, medicinal plants (the island has more than 11,000 endemic species) and especially plants that yield the essential oils coveted by Europeans. Madagascar is the world's largest producer of vanilla and the second-largest exporter of cloves.

But these cash crops have suffered from falling quality standards and competition from synthetic products. The fact that vanilla has overtaken coffee in the export earnings table owes more to the latter's decline than to the performance of the vanilla sector. Prices always depend on the world market, but in Madagascar they are affected even more by illicit practices ranging from crop theft to export fraud.

The livestock sector is also experiencing difficulties. Very few of the island's 10 million head of cattle, which are mainly of the Zebu breed, are officially exported; between 1994 and 1996 Europe received

only 2,000 tonnes of meat, against a quota of 8,000 tonnes. Zebu rustling is widespread, the slaughter industry is at crisis point and quality control is inadequate, resulting in an EC embargo on Malagasy meat since 1997.

Even the shrimp sector, which has been expanding rapidly over the last decade, was recently embargoed for health reasons. Madagascar currently produces 120,000 tonnes a year of fish products, compared to 26,000 tonnes a year at the time of independence. Fishing is mainly industrial and is concentrated in the Mozambique Channel to the west of the country.

3. The Free Zone, industry and tourism

The Free Zone arrangements introduced in 1989 were designed to revive Madagascar's existing industrial fabric and attract new investors. The number of firms rose from 12 in 1990 to 106 in 1993, jobs from 5,600 to more than 23,000 over the same period, and the range of activities diversified. Since then, a number of companies previously established in Mauritius have returned to Madagascar, while investment sources have diversified geographically. Once again, however, the island's transport and telecommunications infrastructure limits industrial growth.

Despite steady growth over the last ten years (28,000 foreign visitors in 1987, 85,000 in 1996 and 130,000 in 1999, of whom half are from France and Germany) and the start-up of charter services in 1997, Madagascar seems yet to be "discovered" as a holiday destination. Nevertheless, tourism is third on the list of sources of foreign exchange after shrimps and vanilla, and both public and private investment in tourism is increasing. The diversity of supply offered by the island's variety of landscapes is an asset, and ecotourism too is a potential opening.

Deposits of gold, gemstones and minerals lie buried beneath the Malagasy soil. The 3-4 tonnes of gold produced annually could easily be doubled if mining operations were less makeshift and marketing better controlled. Production of chromite, graphite and mica is hostage to the fluctuations of the world market and handicapped by the low rail transport capacity. International groups started mining sapphire and

prospecting for oil again in 1997, but all economic activity is subject to the chaotic pace of privatisation.

4. Crisis, and some recovery

The contrast between Madagascar's potential and its deteriorating situation is hard to comprehend: between 1971 and 1994 the standard of living fell by 45%.

The 1974 oil crisis marked the start of an abrupt downturn. The "invest to excess" programme launched in 1979 by the Democratic Republic of Madagascar against a backdrop of world recession coincided with an increase in budget and trade deficits. At the same time rice production began to stagnate, and distribution channels were unable to keep up with the sharp growth in population. The economy remained in deep crisis until 1984: real per capita growth was -4.6% between 1980 and 1984.

From 1984 to 1990 a major macro-economic adjustment programme encouraged growth, but the political transition of the years 1991-94 put an end to this recovery.

By the mid-1990s the principal socio-economic indicators were catastrophic. Life expectancy was around 50, the mortality rate in the under-five age group was 20%, the public health system was run down, 95% of households were without running water, the average income was minimal, and illiteracy levels were higher than at independence.

Between 1994 and 1997 the rate of inflation fell considerably and there was a threefold increase in private investment. GDP grew by 2.6% annually, though this was still below the population growth rate of 2.8%.

Fewer than half of all children between the ages of 6 and 14 currently attend school. In rural areas, where 77% of the Malagasy still live, school attendance is lower still. Migration to the towns has encouraged the *katmi* or four m's: *mifoka* (drugs), *misotro* (alcoholism), *mivarotena* (prostitution) and *mingalatra* (theft), which are all widespread.

Recent years have seen the beginnings of recovery. Discussions have resumed between the government

Socio-economic indicators

	1995	1996	1997	1998
Per capita GNP (\$)				260
GDP growth (%)	1.7	2.1	3.6	3.9
Inflation (%)	48.4	20.2	5.5	7.9
Literacy rate				47.2%
Life expectancy (years)				58
Number of tourists	75,000	85,000	92,000	120,000

sources : The Economist Intelligence Unit and EU

and the Bretton Woods institutions, and an Economic Policy Framework Document has set out a programme for economic change. Inflation fell below 4% in 1999, the public-sector deficit is falling, the Free Zone is gradually beginning to take off and the number of jobs in industry has nearly doubled since 1994.

The government wants to reduce the proportion of people living below the poverty line from 70% currently to 30% by 2015, and has publicly committed itself to combating corruption. Madagascar is also seeing a rebirth of artistic and musical activity, as reported in issue 26 of *Revue Noire* (September 1997).

Will the country succeed in reforming its administrative and economic structures? To do that it needs to win the confidence of both the Malagasy people and its overseas partners. At any rate, the return to political stability has permitted the relaunch of the macro-economic reforms agreed with the Bretton Woods institutions. Supported by the European Union, the 1999 agreement emphasises the need for privatisation and better public services.

II. Madagascar and the European Union : extensive co-operation

A list of priority sectors does scant justice to the successive programmes conducted over the last 40 years under the aegis of European co-operation. Between 1976 and 1995 Madagascar received more than € 387m in NIPs. Transport infrastructure, rural development and health still receive the lion's share of funding from the 8th EDF.

The structural adjustment facility was allocated a budget of € 10m under the 7th EDF, but this was never disbursed. To compensate, a sum of € 56.8m was programmed in 1999/2000, € 20m of which comes from the NIP, based on firm performance targets for education and health.

Budget lines have provided emergency aid (1992: drought in the south, 1996: cyclone Bonita, 1997: cyclone Gretelle, 1997: locust control) and direct and indirect food aid. Between 1996 and 1999 the food aid and food security programme received € 29m from outside the NIP, with support to NGOs of more than € 20m.

To date, the € 67m has been earmarked from the 8th EDF for infrastructure, € 22m for health and € 8m for rural development, to which must be added other funds supporting food security. Between 1986 and 1995 Fisheries Agreements were concluded for a value of € 5.34m. A new Agreement concluded in mid-1998 provided € 2.28m over three years in return for the granting to 75 EU vessels of the right to fish in Malagasy waters.

Resources allocated to EU-Madagascar co-operation

(million €)	Lomé I	Lomé II	Lomé III	Lomé IV 91/95	Lomé IV 96/2000
TOTAL NIP	69.2	78.0	125.0	133.0	188.5
STABEX (coffee, vanilla, cloves, essential oils)				55.4	4.8 (+ 5.7)
SAF			12.4	-	36.8
EIB			30.3	13.8	37.0
Budget headings	12.8	13.1	21.7	17.1	8.0

1. Transport infrastructure

Successive Malagasy governments have known that improving the road network is the key to developing production, trade and consumption on this vast island. Since 1958 European has made funds available to build new roads.

But for several reasons - natural, sociological and political - the road network has been getting worse, not better. Bridges have been blown away by cyclones, and roads have deteriorated more through lack of public interest in maintenance than from shortage of money or technology. Compared with 50,000 km of theoretically passable roads in the

1970s, the network was estimated at 17,000 km in 1999, of which less than 5,000 km was asphalted. Many areas of agricultural production remain inaccessible.

The situation demanded a major reform. This has taken the shape of a redirection of multilateral aid to support national authority projects. Priority is given to restoring and maintaining roads and bridges, backed up by planning, organisation, resources and expertise.

In view of the scale of the task, choices have had to be made. € 72.5m in 7th EDF funding has been approved for a programme to restore the main roads linking Antananarivo to the ports of Toamasina, Mahajanga and Toliara. The 1,800 km of road concerned carries 60% of the country's traffic and is the backbone of the national road network. A quarter of the available STABEX funding has also been used to improve access to key economic areas, principally on the vanilla- and coffee-producing east coast.

A National Road Maintenance Programme has been put in place to look after periodic work, such as resurfacing and bridge strengthening, and running maintenance such as drainage, potholes and pruning. Major maintenance costs are financed from the EU counterpart funds, while day-to-day maintenance costs are paid for from taxes following a 1994 increase in the tax on petroleum products (TUPP), previously used to top up the road maintenance fund. A Roads Charter setting out the responsibilities of the government, provinces, towns and private users is currently being drafted.

A restoration programme for ten provincial airports during 1999 has also been effective.

These measures are set to continue under the 8th EDF NIP, which allocates them 40-60% of its budget of € 188.5 m.



PANTELIS VASSILIOU

2. Rural development

The EU was Madagascar's sole source of multilateral aid for several years, and this, plus the country's size, the large rural population and the varied range of obstacles to rural development, explains the scale and diversity of EU rural development projects.

More than half the resources of the 2nd and 3rd EDFs were targeted at improving rice and coffee yields and encouraging diversification of the domestic agricultural market in oilseeds, cotton and coconut. Since the 6th EDF there have been three focal areas for aid: the south, the centre and the north-east. Today, rural development aid concentrates on five sectors: professional organisation of the rural areas, decentralised credit, village infrastructures, production networks and the environment.

Southern region recovery programme

The far south of the island, the poorest region, initially received some funding under the Small Irrigated Areas project. Following the drought and famine of 1991-92, a € 1.9m programme to aid the recovery of the southern region was begun in the Androy area.

This programme relies on channelling local energy and expertise from the private sector, village communities and municipalities. It is underpinned by a clear contract between the recipients and the donors' local representatives. Its three main planks -

Speeding recovery from famine

The famine of 1991-92 forced many farmers in the Androy area to sell their equipment and live off a diet of seeds. To improve living conditions rapidly for the inhabitants of this 25,000 km² area, the recovery programme was designed to establish a co-operative spirit in 68 villages and to provide the farmers with credit.

A second part of the programme deals with basic infrastructure: sinking wells, laying tracks, building warehouses, markets, schools and health centres. Another priority is to promote those sectors essential to food security and conducive to growth. Resources are further diversified by improving working conditions for fishermen and supporting small family firms engaged in building, transport, agricultural repairs and the manufacture of soaps and oils. Women can supplement their income by weaving, market gardening or collecting seaweed.

The programme has borne fruit in Androy: by August 1996 repayments of seasonal loans from village accounts were in the region of 98%, almost 1,200 tonnes of maize and manioc were in storage in new warehouses, and 70 ha of paddies were cultivated.

A year later, 550 ha of land had been developed for farming, and 400 ha reforested. Storage capacity had increased by 5,000 m³, and a new SME had helped the villagers build 23 wells, 6 pools and 36 water tanks. More than 2,000 people helped repair rural tracks.

rural development, infrastructure and equipment, and the promotion of production - are the cornerstones of European rural development in Madagascar.



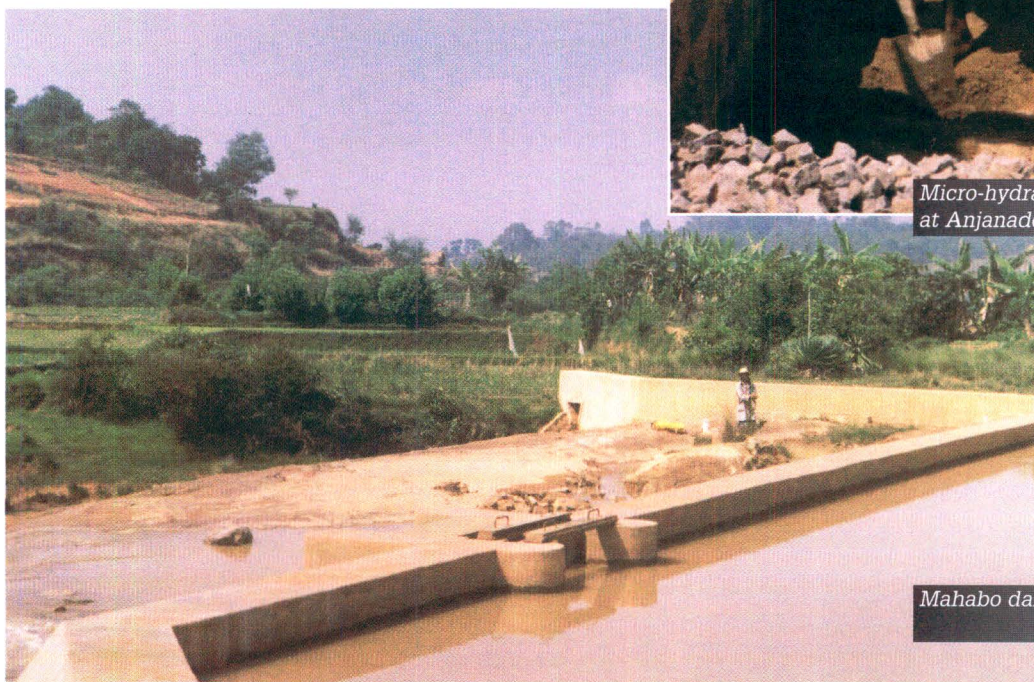
Micro-irrigation in the central plateau

The focus of effort in the high central plateau is on micro-irrigation systems. The aim is to repair or improve small irrigation reservoirs and channels in the rice paddies, aided by villagers who are called on to form water consumer groups (AUEs).

The project is led by a Malagasy engineer from the Ministry of Agriculture's Rural Engineering Department. The rural communities put forward suggestions to the project leader, who chooses which projects to support. Approved projects start by forming an AUE, whose members help with the construction project and are responsible for day-to-day operations and maintenance once it is complete. Each AUE manages around 10 ha of irrigated land.



Micro-hydraulic works at Anjanadoria.



Mahabo dam.

A water engineering microproject scheme that began with 4th EDF financing, and was then interrupted as a result of management problems, resumed in a different form in 1992. From 1978 to 1999 it has helped some 80,000 rural families, created more than 77,000 ha of rice paddies and increased average yields by half. By controlling their water, farmers can now also breed fish or grow crops out of season.

Consumers have been especially heavily involved in areas such as Manjakandriana, Miarinarivo and

Antsirabe. In 1997, for example, 57 projects were in progress and almost 1,000 applications pending.

The required increase in rice production, however, also depends on improvements to farming techniques and seed quality, the accessibility of the irrigated areas, and environmental protection. This may require the AUEs in future to co-ordinate their efforts with regional bodies responsible for credit, training, reforestation or the supply of seeds and fertiliser.

Supporting exports

The third target area is the SAVA region (Sambava-Andapa-Vohémar-Antalaha) in the north-east of the island, where vanilla and coffee are grown. Aid for exports is provided through STABEX transfers, and a STABEX support unit has been based in Madagascar since February 1997. An information, training and management support programme has been set up for the benefit of traders and the Ministry of Commerce, with a view to improving output and quality and, above all, rationalising and developing these sectors.

Collaboration with professionals in this agricultural sector allows common requirements for production, preparation and export to be researched and identified, and solutions proposed. One such solution is an action fund to revive the vanilla sector; this fund is currently being set up in the SAVA region, paid for jointly by the vanilla traders' association and STABEX. The essential oils sector is due to follow the same course.

Work with the administration, involving dialogue and training seminars, is designed to remove the obstacles experienced by traders at ports and in customs by improving the efficiency and accountability of services.

The third component involves opening up access to the areas of production. This is being done for the three areas on the east coast as part of the overall road infrastructure project.

The main thrust of operations in relation to other crops such as coffee, lychees and cocoa, livestock and fisheries is to improve quality and health standards. Partnerships have been set up with research bodies, including CIRAD, to try out new plant breeds, such as seed orchards and upland rice, to improve technical and financial inputs, and to provide plant such as abattoirs and fish-cleaning factories.

Achieving good hygiene and quality standards in abattoirs, whether the meat is destined for local consumption or for export, has proved difficult. Problems with the management of the principal abattoirs have focused current efforts on abattoirs in smaller towns and on training for Malagasy veterinary services.

3. Food security

74% of Madagascar's people are poor in terms of income, and 63% are poor in terms of diet: the advantages of the village subsistence economy are slender. Not only are agricultural production methods archaic and institutions misdirected, but the disorganisation of the market is only equalled by that of the transport network. Producers, too, lack organisation, and savings and loans systems are practically non-existent. Although food requirements are met by production, imports and foreign aid, nutritional imbalances such as lack of iodine or protein, and natural disturbances such as drought, cyclones and locusts, result in chronic insecurity.

Emergency food aid still accounts for a substantial part of Madagascar's international aid, and the EU is a major contributor under the ECHO programme. Much of the money for the insecticides and aircraft needed to spray the locust-infested areas in 1997 and 1998 was provided by ECHO and counterpart funds.

The Community food aid and food security programme includes both direct aid, by financing imports, and indirect aid, through distribution of food to charitable organisations. Almost 10,000 tonnes of wheatmeal, cornmeal, rolled oats, beans, vegetable oil, powdered milk, rice and sugar were channelled through partner organisations in 1994, 1995 and 1996.

A basic component of foreign aid, food security operations must now form part of a genuine national policy since the severing of the link, in June 1996, with exports of surpluses generated by the Common Agricultural Policy. The Commission has elected Madagascar as one of the six test countries for enhanced co-ordination between the Commission and the EU Member States. A special unit was set up in the EU Delegation in Madagascar in early 1996 with three principal tasks: making proposals, monitoring and co-ordination.

A precondition for the shift from an aid mentality to a culture of development is the existence and effectiveness of the means to act, such as rural observatories and systems to identify deficiencies and

control prices. During privatisation, the effect on sectors such as wheat and flour should be closely monitored as these are of literally vital concern. Operations which contribute to food security cover rural water engineering microprojects, the restoration of irrigated areas, locust control, repairs to rural tracks and the opening of access to production zones.

In a country which hosts 300 NGOs and co-operates with numerous international institutions, care must be taken to ensure proper co-ordination of indirect food aid.

The early warning system

In 1996 an early warning system (EWS) was introduced in 87 traditionally high-risk communes in southern Madagascar. The aim was to predict food crises and improve emergency aid procedures.

The EWS project organises the collection of data on rainfall, the progress of crops and livestock, supplies and prices at the region's 65 markets, consumer habits and the state of national reserves. The information is analysed at the project's headquarters in Ambovombe and published in a monthly newsletter containing maps and detailed graphs.

450 copies of the newsletter are distributed to the national authorities, international organisations and donors. Proposals have been put forward for ways to improve the project, but already its usefulness is widely recognised.

4. The social sectors

Poverty alleviation is a condition for development; it can also help promote development, provided communities are committed to take part in activities which contribute to improving their living conditions. This is only possible through direct involvement in the field, using simple, locally available technologies and responding swiftly and cost-effectively to specific requests.

Projects consist of construction work such as housing, schools, dispensaries and storage facilities, and small-scale infrastructure works such as rural tracks, water supplies, plant nurseries and even Antananarivo's stairways, which are unusable by disabled people and collapse regularly.

Since 1995, four successive programmes with a total budget of € 7m have funded about 100 of these projects. From 1999 onwards, microprojects have been financed under a support programme for communal and local initiatives, which has a budget of € 8 m.s.

Social housing

Seven of the 10 social housing projects submitted since March 1997 have been selected. Work started first on the project of the "Association Akamasoa" (literally "the good comrade") run by Father Pedro who is famous for his crusade to help the homeless of Madagascar. A new village of 36 houses is under construction in the lush outskirts of the capital. Brick houses, reminiscent of the traditional style, are steadily going up. The project is due to last six months and its total cost is 720 million Malagasy francs (a little over € 120,000), to which the beneficiaries are contributing 180 million MF. The labour is provided by fathers of the families temporarily sheltered by the association's wooden huts; in the distance the women work in the quarry while watching over children too small to attend the Akamasoa school.

Four other projects took shape in 1998: the construction of a village for 40 elderly people with no means of support, the restoration of a village for lepers, the creation of a village and workshop for street families, and family housing where children can be reunited with their parents.

Rural tracks

As well as heavy roadworks, opening access to agricultural production areas involves restoration of the well-built but pitifully-maintained network of roads leading to small villages and fields. The first task for the microprojects unit is the restoration of some 120-190 km of rural roads, tracks and bridges. Priority is given to projects whose beneficiaries are able not only to carry out the work but also to guarantee future maintenance. Counterpart funds have been made available, and by 1998 about a dozen projects were in progress. This type of development support to the rural regions is being carried out particularly in the west of the country.

A new road for Manjakandriana

Sixty kilometres from the capital, on the road to Toamasina, the mayor of the small commune of Manjakandriana beams with pride at his new track. Planted with eucalyptus during the colonial era for use in building the railroads, this region is a large charcoal producer. Even during the rainy season, heavily-loaded lorries can drive safely along the 9.5 km of road, which is now metalled on the steep inclines, fitted with drainage channels and clear of vegetation. The toll has gone up, but that is the price to pay for regular maintenance.

At the end of the track, deep in the jungle, a plot belonging to the commune will eventually contain a plant nursery and perhaps a fish-farm. This second phase of the project, drawn up after the success of the first, clearly shows the interplay of development operations: restoration of a track, reforestation, diversification of resources. Continuity fosters the involvement of local people.



Low-cost housing.



Health

As well as the ill-effects of poor diet and living conditions, tuberculosis, malaria, bilharzia, leprosy and plague can also be found in Madagascar. Although the level of HIV infection is low, sexually transmitted diseases are rife. Since the late 1980s there have been more than 1,600 cases of food poisoning linked to seafood.

The priority aims of the national health policy adopted in 1996 are to reduce the infant mortality rate from 100 to 76 per thousand within four years, and to eradicate leprosy, neonatal tetanus, poliomyelitis and epidemics of malaria. The organisation of the health system has been reformed and the Ministry's provisional operating budget increased in 1997 to 10% of the national budget, a return to the level of 20 years ago after a low of 2.7% in 1994.

These endeavours have the backing of European aid, in the form of a € 22m project, which has played a central role in setting up a purchasing agency for essential medicines. The SALAMA, as it is known, ensures the supply throughout the island of selected generic medicines. Standards for the choice, price, administration, distribution and storage of medicines are set by public health groups and dedicated regional non-profit bodies.

European aid also provides institutional support to the Health Ministry in the form of technical assistance. Other areas of European intervention in the health sector include training for nurses and matrons, equipment, start-up assistance for medical and paramedic staff in disadvantaged areas, and quality control of medicines, which account for more than 22% of the 8th EDF.

5. Vocational training

All activities in the field include a training component. A special programme, FORMFED, has been run since 1993 for civil service middle management and representatives from the private sector and NGOs. Courses are run in the fields of tourism (to improve staff skills on the ground), health, rural development (the Formagri programme, conducted by an NGO in Malagasy and French, is targeted at peasant farmers and agricultural technicians), local fishing, public works and local administration.

European assistance to Madagascar therefore covers a vast range of activities. The list would not be complete without mentioning the initiatives, tied in with regional projects, to boost tourism and protect the environment, together with consideration for "women and development" in all the activities financed by the EU.



MAURITIUS

I. Overview

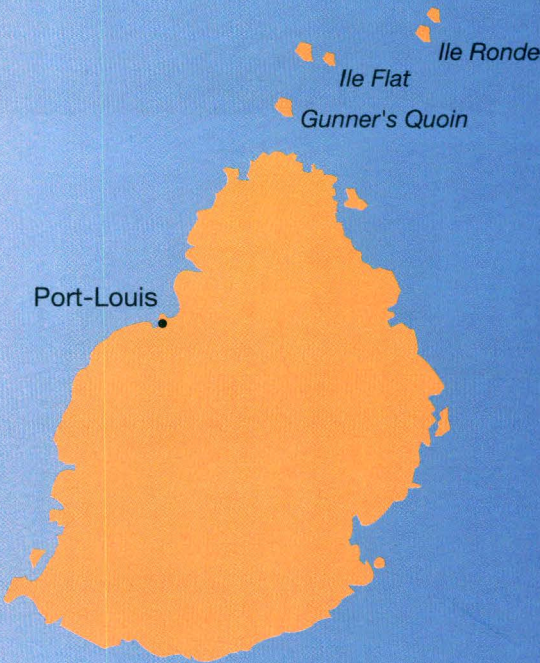
1. From Ile de France to the Republic of Mauritius

At the very end of the 16th century a Dutch fleet bound for India stopped at a lagoon on an uninhabited island in the Mascarene group, to the south of the Tropic of Capricorn. The Dutch named the island Mauritius after Maurice of Nassau and introduced sugar cane. In their search for food they subsequently exterminated the dodo, a flightless bird which became the island's national emblem.

In 1715 the captain of a vessel belonging to the French East India Company occupied the island on behalf of France and renamed it Ile de France. The new Governor, Mahé de la Bourdonnais, was to be the architect of the island's agricultural and maritime development. The French-speaking trading capital, Port-Louis, played a pivotal role during the wars between the French and English naval fleets and pirates.

PROFILE

Independence	1968
Head of State	Cassam Uteem
Capital	Port-Louis
Languages	Creole, French, English
Currency	Mauritian Rupee
Exchange rate	€ 1 = 22 MUR (October 2000)



Tamil temple.



Chinese cemetery.



Hindu temple.



The island was taken by England in 1810 and became Mauritius again, but power remained in the hands of the French-Mauritian plantocracy. Sugar cane gradually became the sole crop, occupying 10% of cultivated land in 1820 and around 50% in 1960. With the abolition of slavery, labourers came from India and until by 1871 they already accounted for two-thirds of the population.

Mauritius now has 1.2 million people. In 1995 the population consisted of 50% Hindus, 17% Muslims, 3% Chinese, and a 30% "general" group comprising whites, blacks and people of mixed parentage.

After becoming independent and joining the British Commonwealth in 1968, Mauritius declared itself a republic in 1992. It has a parliamentary system where allegiances shift from time to time without upsetting the democratic stability of the country, and an entrepreneurial and multi-cultural middle class. French is the language of culture, English the language of business and Creole the *lingua franca*. At home, family members often speak the language of their country or region of origin.

A tight-knit network of associations, genuinely pluralistic media and a competent administration have created a higher level of education and infrastructure in Mauritius than in many other countries of the southern hemisphere. The pragmatic approach taken by successive governments has consolidated the diversity of the island's international relations. Mauritius belongs to both the Commonwealth and the francophone community, and has developed relations with southern Africa, India and south-east Asia. In the late 1970s, when the plantation economy was beginning to run out of steam and democratic pressure was growing, it used its geographical location at the crossroads between Africa, Europe and Asia as a springboard for economic expansion.

2. Explaining the Mauritian miracle

Underpinned by the Sugar Protocol, the buoyant Mauritian sugar industry has fuelled investment in the Export Processing Zone and tourism. Together, these three sectors have formed a powerhouse for development through government support in the form of four-year development plans and a sustained policy to encourage and support private initiative.

The Mauritian economy is diverse: 4,500 companies with a workforce of fewer than nine people exist alongside conglomerates with up to 110 subsidiaries, as well as foreign companies with Mauritian managers. There is a sophisticated financial system - the Chamber of Merchants has existed since 1804 - and high-quality services. The Chamber of Agriculture, Chamber of Commerce and Industry and the Sugar Syndicate have had a joint office in Brussels since the 1960s. Trade associations are very active, negotiating with the government through the Joint Economic Council.

The government has not only privatised a number of public undertakings in recent years but has also increased the number of semi-public agencies overseeing major areas of activity. These include the Mauritius Export and Investment Authority (MEDIA) to attract investors, the Export Processing Zone Development Authority (EZPDA) to improve business efficiency, the Mauritius Free Port Authority, the Mauritius Waste Water Authority and the Mauritius Tourism Promotion Authority.

The economy has been radically restructured over the last 25 years, and GDP has risen on average by

5.6% a year. In 20 years the contribution of agriculture, including sugar, to GDP has fallen from 23% to 9%. Industry's share has risen to 23% (13% for the EPZ), and tourism has doubled. Although growth has created new inequalities and new lifestyles, most socio-economic indicators are positive and Mauritius has become a middle-income country.

Sugar dominates agriculture

Until 1970 sugar accounted for one-third of GNP and 99% of Mauritian exports. Since then the plantation economy has gradually changed, with the area of cultivated land and the number of sugar factories falling rapidly. At the same time the authorities have encouraged a fairer distribution of revenue within the sector and helped to consolidate its technical expertise. Although the industry now employs fewer workers (from 55,000 in the 1970s to 33,700 in 1997), production has been maintained at around 600,000 tonnes a year. Sugar generates a high, stable income through the very favourable marketing terms offered by the EU, while other exports go to the United States and Canada.

The sector's indirect contribution to Mauritius's development has also been considerable. Export duties, which applied until 1994, generated as much income as tax revenue, freeing both capital and human resources for other uses. Bagasse, the residue remaining from sugar cane processing, is burned to generate 12% of the country's energy requirement. Food crops grown between the sugar canes form another indirect resource.

The success of sugar has not been without setbacks,

Economic indicators

	1994	1995	1996	1997	1998
Growth (%)*	5.3	5.6	6.1	5.2	5.3
Inflation**	7.4	6.0	6.6	6.2	6.8
External debt (\$m)	1382	1775	1818	2472	1894
Sugar (000 tonnes)	500	525	589	621	627
Tourists (thousands)	400.5	422.5	486.9	539.1	563.9

* 0.4% in 1983
** 13.5% in 1990

source : The Economist Intelligence Unit

Tourism:
Trou aux Biches.



however. 1999 brought the most serious drought for 50 years and several cyclones. As a result, sugar production fell to 460,000 tonnes.

Other crops are insignificant. Some tea is grown, but the island is not self-sufficient in wheat, rice or milk. The coastal fishing sector is saturated. Growing flowers, especially anthuriums, and fishing for large shrimps are recent activities that have generated reasonable volumes of exports.

The Export Processing Zone and Tourism

The Export Processing Zone (EPZ), which covers the whole island, is based on a set of statutory and tax provisions that have enabled Mauritius to diversify its economy by exploiting its political stability, good infrastructure, flexible labour force and attractive investment climate. In the 15 years after it was set up in 1970, the EPZ overtook the sugar industry in terms of job creation (81,900 jobs in 478 companies in 1997), export earnings (84% of the total) and GDP share. Most companies in the Zone are in the textile sector, where a dynamic relationship has developed between local investors, who provide 50% of the capital, and their overseas partners. Aided by the Multifibre Agreements, local firms

trade with companies in France, Great Britain, Germany, China, Taiwan and especially Hong Kong.

The growth in tourism over the last 25 years has drawn on Mauritius's advantages of climate, coastal scenery, a small time difference with Europe, political stability and high-quality tourist facilities. In 1997 tourism generated over 15,000 jobs and 4% of GDP, excluding any indirect benefits, which have not been measured. The average profit margin over the five years to 1998 was 5%. Tourists come mostly from mainland France and Réunion, followed by Germany and South Africa.

With 560,000 visitors in 1998, or nearly half its population, Mauritius has become a victim of its own success. Can its beaches accommodate an ever-increasing number of tourists?

3. The lesson of the dodo

Is such growth sustainable? Doubts began to emerge in the early 1990s, prompted by the globalisation of trade and the realisation that Mauritius had little land, capital or labour that was not yet fully exploited.

In 1970 there were ten free zones in the world, and now there are 140. Mauritius faces lively competition from the newly-industrialised countries of south-east Asia in terms of foreign investment, labour costs and competing exports.

This competition, coupled with the lack of natural resources, is obliging Mauritius to rethink its economic strategy. The country is switching from mass production of cheap textiles to value-added products, from concentration to diversification in electronics, leather and jewellery, and from manufactured goods to services. This is particularly relevant as the global trade constraints of the WTO, which replaced GATT, threaten the existing preferential agreements between Mauritius and the EU.

With full employment, labour costs have been rising more quickly than productivity. This, coupled with employee's demands and unreliability - 10 to 15% of Mauritians frequently fail to turn up on Mondays - has led businesses to recruit from abroad or to relocate outside Mauritius. The short-term needs of the growing tourist industry sometimes conflict with longer-term requirements for agricultural diversification and environmental protection.

Despite the generally high level of income there are therefore pockets of poverty, and others are emerging as, for example, the sugar industry lays off thousands of illiterate workers. The result has been a demand for social justice and welfare benefits, and sometimes violence.

The dodo became extinct because it was unable to adapt to man's arrival. Mauritius has reached a crucial stage in its development, and needs imagination, integrity and solidarity to regain its competitiveness and social benefits.

Mauritius has taken to heart the lesson of the dodo, as shown by the establishment of two promising new sectors in 1993: offshore financial services and

Understanding offshore finance

Companies: banks, insurers and reinsurers, commercial businesses and finance companies, international consultants, navigation services, data processing.

Examples of operations which offshore banks are authorised to undertake : financing and commercial loans in the offshore sector, fund and deposit management, registration for trust companies, financing commercial operations, advisory services for offshore companies.

Legal and regulatory framework : following the amendments to the Banking Act in 1988, two new laws were adopted in 1992 offering offshore companies advantages such as :

- no restrictions on repatriation of dividends;
- tax exemption on dividends, capital gains and purchases;
- tax exemptions on items such as office equipment and registration fees;
- no death duties;
- a reduction on the normal rate of income tax (30%) for expatriates;
- a raft of non-double-taxation agreements.

the Free Port. As befits a modern economy, both these ventures emphasise the importance of information technology and quality management.

With seven international banks setting up since 1988 and over 4,000 companies registered in 1996, Mauritius has demonstrated a legal and tax environment that can establish the island as an offshore business centre and enable it to integrate into the world economy.

The Free Port is a logistical centre set up in 1992 as part of the Free Zone. It has brought productivity gains in the transshipment of goods imported primarily from Asia (27% from China, 11% from India and 10% from Thailand) and re-exported to Africa (Madagascar, Réunion and South Africa are the main markets).

290 operating permits for warehousing, storage, processing, packaging, labelling and distribution have been issued by the Mauritius Free Port Authority in a period of four years, and their volume is rising rapidly. Transactions accounted for US \$ 240 million in 1997, up from US \$ 90 million in 1996. The expansion has required a considerable extension of the Port, as well as complete renovation of the airport at Plaisance.

II. Mauritius and the European Union : setting the standard

Co-operation between Mauritius and the EU is held up as an example for two reasons: this remote island is an ACP country that has been able to maximise the benefits of the Lomé Convention, while European development aid has simultaneously underpinned development both qualitatively and quantitatively. Mauritius was thus an auspicious place to sign the second financial protocol to Lomé IV in 1995.

From very modest beginnings under the Yaoundé II agreements, co-operation between the EU and Mauritius has expanded rapidly since 1976. Over € 300m is now mobilised through successive NIPs, preferential trade agreements for sugar, textiles and fisheries, and other financial instruments.

1. Trade co-operation

Mauritius enjoys very favourable terms of trade for sugar and, to a lesser extent, for fishery and textile products under the general preferences annexed to the Lomé Convention.



Sugar Protocol

Import terms for raw and white cane sugar from the ACP States are laid down in a protocol dating back to 1968. Under the Sugar Protocol the European Community undertakes, indefinitely, to buy at guaranteed prices specific quantities which the ACP States undertake to supply.

Under the protocol, in 1993 Mauritius was able to sell 484,287 tonnes of sugar to the European market at a guaranteed price of € 52.37 per 100 kilos of raw sugar, compared with an average price on the world market of € 19.13. The entry of Portugal and Finland into the EU generated an additional quota of 85,000 tonnes. In comparison, Fiji, which is second on the Sugar Protocol list, is entitled to sell 195,000 tonnes a year.

In 1998 Mauritian earnings from the Sugar Protocol reached € 166 m.

The Fisheries Agreement

The Mauritius-EU Fisheries Agreement, which covers not only fishing licences but also technical co-operation and training, was renewed for a period of three years at the end of 1999. It comes under the regional co-operation where a programme covering other species and resource management (monitoring, control and surveillance) is being developed. These new developments are important because small fishermen are one of the most vulnerable groups in term of income.

Under the Agreement, € 206,205 will be paid annually as compensation for the capture in Mauritian waters of 5,500 tonnes of fish, mainly tuna. € 618,750 is destined for scientific research and promotion programmes.

Resources allocated to EU-Mauritius co-operation

(million €, non-RIP)	Lomé I	Lomé II	Lomé III	Lomé IV 91/95	Lomé IV 96/2000
EDF/NIP	15.3	20.5	31	34	39.5
+ EIB	12.5	4.5	34.5	70	10
Budget headings	9.6	3.3	0.1	2.9	-

Under Lomé I, two-thirds of the € 15.3m allocated to the NIP went to infrastructure, with the other third to the sugar and pharmaceutical industries, rural development, industrial and business promotion and training. Special aid was provided for cyclone damage, and € 8.8m given in the form of food aid.

Some € 20.5m were committed under Lomé II for roads, hospitals, health centres and agricultural development. Special aid was given to the island of Rodrigues (see box) after it suffered drought and cyclone damage.

Around 80% of the € 31m allocated under Lomé III went to agricultural diversification and small business promotion. The EDF supported planters' efforts to develop crops to replace sugar cane or for intercropping in cane plantations, and to speed up the cropping cycle, and the Lomé-financed Centre for the Development of Industry targeted manufacturers and agri-food producers.

These priorities were retained in the first protocol to Lomé IV, with 75% of the € 34m being used to fund crop diversification through projects to improve breeding, combat the fruit fly - a devastating parasite - and for irrigation projects. Construction of a four-lane highway between Grand Baie and Pamplemousse to improve access to the north of the island, and support given to the IVTB (Industrial and Vocational Training Board) and the MIPAM (Mauritius Institute of Public Administration and Management), are evidence of the sustained aid given over the last 20 years in the infrastructure and training sectors.

Agricultural development


Infrastructure support is provided under a global project to improve yields and encourage the growing of food and fruit crops to replace the sugar cane monoculture. The Mauritian authorities are also doing what they can to motivate and train peasant farmers and encourage them to form associations.

M1 pipeline

Many rivers in the south of Mauritius have small dams to irrigate small-scale cultivated areas. Agriculture in the west and on the northern plains, however, needs an efficient irrigation system. The Mauritius Irrigation Authority has therefore embarked on a large-scale irrigation programme with the assistance of various donors.

Out of a total of 92,000 ha of cultivated land, of which 72,000 ha is used for sugar cane, the irrigated area is to be increased from 18,500 ha to 33,000 ha. The Midlands dam planned on the Grande Rivière South-East will carry water from the south to the north of the island. Work has already begun to improve distribution systems.

Having restored the Magenta Canal, the European Union is now helping to replace the old M1 Pipeline, which irrigates 1,800 ha from the La Nicolière reservoir built in 1929. A larger, more reliable pipeline is to be built over a distance of 6.7 km to irrigate an additional 3,500 ha for the 4,000 small producers in the area. The system must be extended by installing another pipeline.



The NIP signed in February 1997 focused 8th EDF funds (€ 39.5 m) on a medium-to-long-term objective: sustainable development through support for government efforts to protect the environment (50% of the NIP) and private sector development (30% of the NIP).

Environment

The environment has long been an area of concern and is now becoming a focal sector of EU-Mauritius co-operation. Mauritius set up a special environment ministry in 1990 and the island was included in the Environmental Regional Programme set up under the 7th EDF.

The degradation of arable and coastal land, plus river and sea pollution caused by uncontrolled industrialisation and urbanisation, are threats to biodiversity and a source of conflict in the use of natural resources. There are many ways in which this problem can be addressed. Pollution must be analysed and controlled, legislation and action against polluters harmonised, government plans for the management of liquid and solid waste, erosion control and protection of the marine ecosystem should be continued, and greater research undertaken into energy sources to replace fuel oil and encourage environmental awareness.

In Mauritius, European co-operation has focused on governmental measures to improve sewage disposal and treatment. Currently only 20% of the population is linked to mains drainage.

Development of the private sector

A consensus has gradually emerged about the pivotal role played by the private sector in sustainable growth and democratic pluralism. With this in mind, the Mauritian government intends to provide business with the political, legislative, financial, human and technical conditions it needs to succeed.

The EU has never failed Mauritius in this regard. Between 1986 and 1996 it used NIP and EIB resources to provide € 23m in credit lines for industrial and agricultural diversification, information and training seminars, events sponsorship, support for attendances at fairs abroad and help for business and government vocational training organisations. A sum of € 8m has been allocated under the 8th EDF for this purpose, mainly for small businesses.

Small businesses provide many jobs (42% of all jobs

A number of waste disposal projects are being undertaken throughout the island by the Mauritius Waste Water Authority. Some € 16.7 m in aid has been provided for a project to renovate and expand the St Martin Sewage Treatment Plant, the total cost of which is estimated at approximately € 40 m.

This plant in the Plaines Wilhems, the most populated and industrialised region of Mauritius, was built in the early 1960s and is now under-sized. The waste water gives off unpleasant smells before being released into the ocean, and the untreated industrial effluent is a serious threat to rivers and the marine environment.

Under the renovation scheme the plant's capacity will be increased and the recycled water will be used to irrigate the cane plantations around the plant - lack of rainfall is a limiting factor in agricultural production.



The upgrading of the St. Martin sewage treatment plant.

The primary treatment plants (degritting and oxidation) were renovated in 1997. Secondary and tertiary treatment plants (sludge stabilisation, decontamination and desalination) will be renovated in a second phase to be completed by 2015.

Before this happens, however, the problem of the project cost will have to be addressed. This may be complicated, as the water pricing mechanism depends on three different bodies.

in 1994) but are often limited by lack of human resources, quality standards, innovation or management skills. EDF funding can improve both professional qualifications and international competitiveness through internal and external management training, access to credit with emphasis on guarantee and share funds, improved communications infrastructure and technology transfer. A Clothing Technology Centre has been established to help competitive restructuring of textile companies, and special funds have been set up for firms on the island of Rodrigues.

Alleviating poverty

To help alleviate poverty the 8th EDF will provide non-focal sector funds for what is both a political and economic issue. Growth has narrowed the extreme social divisions in the plantation economy but has created new inequalities. Changing ways of life, such as women in factories, people working far from their homes and loss of community feeling, have been accompanied by urbanisation, family break-up and a lack of security.

The Mauritian government launched a wide-ranging study of ways to identify the size and location of poverty pockets in Mauritius. Once the limits and capacity of the social services had been analysed, a micro-projects programme was set up in 1999 with the support of € 3.6m from the EU.

Opposite the Port-Louis town hall, the office of A Nou Diboute Ensam (“Let’s all stand together”) is ready to support project promoters through participative, decentralised aid. Beneficiaries pay 25% of the costs, in cash or as contributions in kind. Priority is given to the unemployed, women breadwinners

and young poorly-educated people seeking to launch small-scale economic activities, improve local social infrastructures or improve their skills.

In the housing sector, a project to rebuild delapidated sewerage systems, at a total cost of € 4 m, will benefit several social housing developments (Central Housing Estates) on the island.



Fighting erosion on Rodrigues

The island of Rodrigues, which lies 500 km to the east of Mauritius, is very different from Mauritius. Its climate is arid, its people are largely Catholic Creole peasants living in isolated communities, 40% of the population is illiterate and there is a high level of emigration. The economy is dominated by the primary sector and more than 80% of land belongs to the state. Isolation is a further source of problems, although Rodrigues has a specific ministry in the Mauritian government. Rodrigues does, however, have significant agricultural and tourist potential.

The EU, which was for a long time the only donor in Rodrigues, is now the leading partner in a deve-



lopment programme to combat soil erosion. Reforestation began back in the 1950s. Terracing and drainage work have been undertaken under government impetus, with the peasant farmers paid to do the work. But the farmers, who have very precarious land tenure, have not been involved in the management and maintenance of the infrastructure they are paid to build. They merely take stones out of walls to build new buildings, and let the cattle wander off.

An integrated agricultural development project on Rodrigues was mounted in 1983 with funding from the 5th EDF. Its initial objectives were to improve agricultural production, increase peasant farmer incomes, improve road access, reduce the island's trade deficit with Mauritius, and reforest and restore soils. In 1988 the programme's focus changed to public water supply, and from 1993 to the protection and management of natural resources. The Mauritian government pays the salaries of Rodrigan managers, relief work and the cost of sea transport. The EDF provides technical assistance, equipment, site supplies and an operating budget.

Almost € 8m have so far been given to build over 40 km of roads, enclose 1,000 ha of forest, supply two-thirds of the population with drinking water and carry out hydro-agricultural improvements in six valleys. These programmes have had a real impact on living conditions and have improved the management of local resources.

The anti-erosion programme on Rodrigues is scheduled to continue and to be underpinned by other projects on training, the promotion of women in work and a new communications infrastructure.

These two sectors of intervention, each representing 10% of the total NIP, take into account those "left by the wayside" in the Mauritian miracle. The hope is to contain problems to which the current structural reforms could give rise, including unemployment of the least skilled, reduction in public-sector jobs and the delocalisation of companies. The difficulty lies in proposing structural reforms in addition to meeting urgent equipment needs.

To conclude, a "Human Rights" budget line is financing a training programme for police officers under

the 7th EDF, with the aim of adapting the police to the needs of a modern democratic society. In partnership with the universities of Mauritius and Portsmouth, in October 1999 the course welcomed an initial intake of 60 officers, including eight women, from a planned total of 350.

Economic and cultural dynamism has made Mauritius a regional centre with sometimes contradictory aspirations. Co-operation with the EU is a vital asset at a time when the island is beginning to play for high stakes on the international stage.

SEYCHELLES

I. Overview

1. A vision of earthly paradise

Seychelles, four enchanting archipelagos scattered over an area of 644,000 km², lie south of the Equator and 1,600 kilometres to the east of the African coast. Some 77,000 people live on the 30 or so unique granite islands, the largest of which, Mahé, has an area of just 117 km². Virtually all the islands lie outside the normal path of cyclones. There are emerald lagoons fringed by coconut palms, filaos and mangroves, and the coral atolls of the Amirantes, Farquhar and Aldabra are a paradise for birds, giant turtles and multicoloured fish.

Arabian cartographers marked the islands on their maps as long ago as the ninth century. Between 1650 and 1730 they were a favourite haunt of pirates, buccaneers and freebooters. The French then took possession of the islands and the first settlers arrived in 1770. During naval battles between the French and the British, Seychelles hoisted one flag or the other depending on which ships came into port.

PROFILE

Independence	1976
Head of State	France-Albert René
Capital	Victoria
Languages	Creole, French, English
Currency	Seychelles Rupee
Exchange rate	€ 1 = 4.9 SCR (October 2000)



Street in Victoria.



In 1811 the islands came under British administration and in 1903 they became a Crown Colony - with little noticeable effect on their Catholic and French culture. Seychelles gained independence in June 1976 and the first President of the Republic, James Mancham, staked everything on tourism to bring riches to the country. His administration foundered and a year later he was ousted by France-Albert René, who has been re-elected ever since.

The Seychellois are a melting pot of Africans, Chinese, "Large Whites" (*Blancs cocos*), "Small Whites" (*Blancs rouillés*) and Europeans. Initially the government was leftist and its main priorities were education, agriculture and keeping the wheels of the economy running smoothly. The shift towards a market economy during the 1990s rests on a high standard of living, with an adult literacy rate of 85%, life expectancy of 71 years, and per capita GDP of close on US\$8,000 at the beginning of 2000.

Yet there are a few clouds over these islands of Eden, one of which is the fact that 45% of the population is aged under 20. Social inequalities, a faltering multi-party system and an over-valued currency are all problems facing this small country just when it is considering joining the World Trade Organisation.

2. Developing an island economy

Tourism is a mainstay of the Seychelles' economy, and employs 20% of the working population. The number of visitors tripled between 1980 and 1996.

The Vallée de Mai, on Praslin, with its giant forest of sea coconuts, and the island of Aldabra, home to 150,000 sea turtles, giant crabs, rails, ibises, frigate birds, greater flamingos and blue pigeons, are classified by UNESCO as world heritage sites. Each of the islands has hotels which cater for the tastes of an international clientele, although the standard of service is not always on a par with the prices charged.

Seychelles is the smallest country in the world to have its own airline. This covers 50% of international flights and has a fleet of small aircraft for island-hopping.

Fish is a second source of the Seychelles' wealth. Bilateral and international tuna agreements provide substantial revenue. Seiners from France, Spain, Liberia and Mauritius are licensed to fish in an area stretching from Mozambique to the south of the Maldives and up as far as edge of the Red Sea.

Dugouts and small schooners, whose numbers are dwindling with the industrialisation of the fisheries

sector and falling stocks in coastal areas, catch local fish which features prominently on Seychellois tables and hotel menus.

The Sea Fishing Authority is endeavouring to develop the infrastructure needed to boost export products while encouraging artisanal fishermen to train themselves and set up in business. The canning industry, which has had a majority private shareholding since 1995, employs 1,100 people and processed 150,000 tonnes of tuna in 1995.

Tourism and tuna account for 80% of foreign trade but Seychelles is desperately short of foreign exchange. Most tourists pay for their holidays in their home countries, and foreign fleets control 100% of industrial fishing. The non-convertible Seychelles rupee is over-valued, and import controls and taxes have been introduced on alcohol, petrol and tobacco.

The industrial sector is struggling to become the third pillar of the economy. The deep-water port and the international airport occupy an area of 350,000 m2 fitted out by the Seychelles International Trade Zone Authority, which accords the usual free zone tax and customs concessions. The Seychelles Business Authority (SIBA) manages a Business Centre which registers foreign companies, promotes and regulates international trade.

The Seychelles Marketing Board promotes local food production and the Ministry of Industry supports small local processing and manufacturing firms. It also encourages new professional organisations such as the Association of Small Businesses and the Association of Seychellois Craftsmen.

Despite this, the private sector has been slow to take off and the public sector still provides over half of all the jobs that appear in official statistics. Some government conditions on businesses, notably the need to protect the environment, probably hinder development.

To reduce the trade deficit the government has embarked on an strategy of substituting home-produced for imported goods. In some cases, such as the production of soft drinks, this has proved successful. In others, such as textiles and canned tuna, it has worked less well.

A carefully-paced privatisation programme concerns some hotels and some services in the main port, Victoria.

The international business centre is hoping to attract foreign companies to export from Seychelles. Private firms are looking forward to a new legal and tax system better suited to their needs; at present they have little incentive to invest, because of the cost of credit and the existence of a parallel exchange market.

However, moves to put public finances on a sounder footing and public-sector staff cuts have had a knock-on effect on general services and infrastructure. Even though the average income is the highest in Africa, close to 20% of the population is classified as poor. Climatic events such as the floods of summer 1997 and the severe drought in 1998 have seriously affected economic life. As for tourism, it has pinned its future on environmentalism and the development of regional trade.

Economic Indicators

	1994	1995	1996	1997	1998
GDP growth (%)	0.4	1.1	4.5	4.2	2.3
Inflation (%)	1.9	-0.3	-1.1	0.7	1.5
External debt (million US\$)	171	159	148	149	na
Tourists (thousands)	109.9	120.7	130.9	130.1	128.3
Industrial fishing (thousand tons)	272	280	260	na	na
Exports (million US\$)	51.9	53.2	41.2	69.5	90.6
(canned tuna)		18. 48	34.16	56.94	78.54
Imports (million US\$)	206.2	232.9	378.6	340.5	403.1

source : The Economist Intelligence Unit - 1999 annual report

II. Seychelles and the European Union : thriving co-operation

Because of Seychelles’ geographical isolation, lack of farmland and the instability of tourism and fishing, which depend on external economic factors, the government has come to rely on external development aid. The EU is the biggest donor, ahead of France, Germany and the United States. As traditional bilateral aid is on the wane, the Seychelles government is now fixing its sights on the Middle East and Asia.

European multilateral aid since 1976 has totalled € 17.6m under successive NIPs. In addition, Seychelles has benefited from a series of Fisheries Agreements, from EIB credits for public and private investment and from Indian Ocean regional co-operation programmes. Including the € 5.5m to be provided under the 8th EDF, signed in February 1997, the figure is close on € 50m in 20 years.

EUR 1.5m were provided in risk capital, which was used mostly to increase productivity of small industries and craft businesses. The main non-focal sectors were tourism and the environment: a general plan was drawn up for the conservation and creation of national parks.

The current policy of the Seychelles government is to curb expansion of the public sector while pursuing the alleviation of poverty and giving the private sector more responsibility for the country’s development. As the two main sectors, tourism and fisheries, depend directly on preserving the ecological balance, the bulk of 8th EDF resources will be earmarked for environmental protection. Up to 20% of the NIP may be used for private-sector development and tourism.

Resources allocated to EU-Seychelles co-operation

(million €, non-RIP)					
	Lomé I	Lomé II	Lomé III	Lomé IV 91/95	Lomé IV 96/2000
EDF / NIP	2.4	3.6	6.2	5.4	5.5
Other EDF + EIB	0.7	4.3	3.2	2.0	2.0
Budget headings	0.4	0.1	na	13.3	0.5

Lomé I funding was mainly targeted at social and economic infrastructure and rural development, including irrigation reservoirs, new seeds and artificial insemination. Under the 5th EDF 70% of total funding went to the health sector, including the restoration of Victoria hospital. Under the 6th EDF € 2.99m were allocated to agriculture, with priority on research and improving information services.

With the first protocol to Lomé IV came a greater emphasis on private sector development.



1. Fisheries agreements

Since 1984 fisheries agreements have been signed at three-year intervals. The licences granted to European shipowners allow trawlers from Concarneau, for example, to fish for tuna in the entire Seychelles Exclusive Economic Zone. Between 1996 and 1998 the EU paid € 6.9m in return for the right to catch 46,000 tonnes of tuna annually in Seychelles waters. In addition, a sum of more than € 700,000 was earmarked for technical co-operation and vocational training.

The new agreement concluded in January 1999 has been renewed on the same basis. € 3,450,000 will be provided over three years, distributed between scientific and technical programmes, which take up more than 50% of the total amount, scholarships for training, the creation of a satellite control system for vessels, and funding to develop a specialised hoisting buoy. Seychelles also benefits from special derogations from the rules of origin, including one covering 1,800 tonnes of canned or frozen tuna annually.

2. The environment : a key sector

A fully-fledged Ministry of the Environment was set up in Seychelles in August 1997, headed by the vice-president of the Republic, who is also the Minister for Finance and Trade. But in a country where tourism and fisheries are the prime resources, the environment has long been high on the agenda. In 1990 Seychelles was the first country to adopt a governmental plan for the environment, and 46% of national territory is classified as national parks. Pollution standards will shortly be laid down, environmental education features at all levels of the school system and messages are regularly broadcast on the sole TV channel.

A wide range of measures is needed to protect sites, conserve species and foster the link between sustainable development and ecology. The EU is involved in these efforts at both regional and NIP level, and under the 7th EDF a large part of its technical and financial assistance to Seychelles has been used in the environmental sector. Under the 8th EDF as much as 80% should go to the environment.



Drinking water is a priority area, and the government's objective is to supply 95% of the population by 2000. As part of this, EU funds of € 2.35m will be used to restore "Le Niol", the oldest treatment plant in the country.

The government plan for domestic and industrial waste deliberately opts to privatise waste collection, transport and treatment. On Mahé, the most densely inhabited and industrialised island, the EU is the key partner in the building of the Anse Royale landfill, which will be contracted out to a private operator.

Two national microprojects tackle coastal and marine pollution. As one of the measures taken to encourage the policy of the Marine Park Authority, which was set up in 1996, the buildings of the Marine Park of Saint-Anne island, opposite Victoria, have been refurbished. The Park has also been provided with the boats, computers and communications systems needed for its work of protecting and developing biodiversity.

La Digue landfill works.





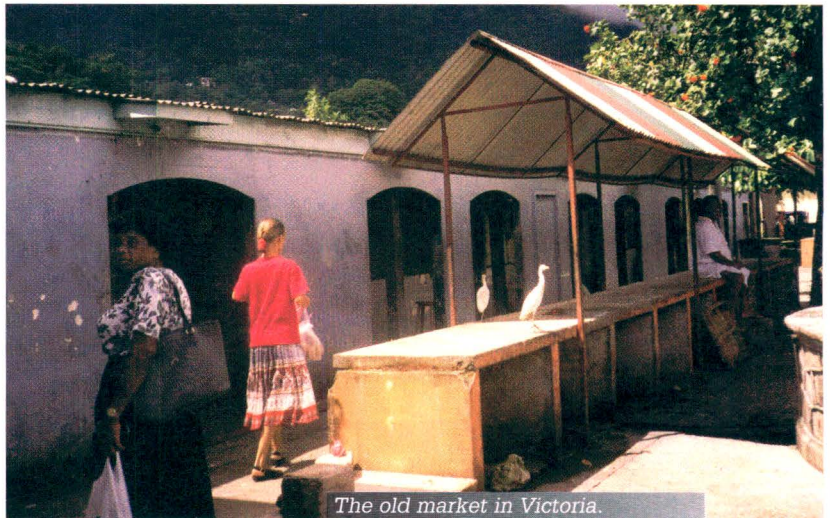
The crafts centre Victoria.

Under a four-year programme run by an international NGO, local staff have been trained in how to protect rare birds and other threatened species. On the idyllic yet fragile and threatened island of La Digue, a metalled road and a landfill site have been built.

3. Private-sector development

A major programme in support of the crafts sector was begun under the 6th EDF. A large building was put up in the middle of the capital containing shops selling a full range of local products.

A raw materials store and training schemes helped to attract young craftsmen. Despite organisational problems and the fact that the merchandise does not always offer good value for money, the initiative is beginning to take off.



The old market in Victoria.

The 8th EDF programme includes restoration of Victoria's central market, which re-opened in June 1999. Rebuilt in the traditional colonial style, general working conditions have been upgraded and more stalls provided for market traders, to the benefit of both tourists and local customers.

SIDEC

Since the first Lomé Convention the EC has given much support to small businesses via SIDEC, the Seychelles Industrial Development Corporation. This public body was set up in 1988 with the aim of helping locally-managed industrial and craft sectors to expand and diversify.

The EU financed a SIDEC study in 1991-92 to identify the needs of Seychellois SMEs. The results were encouraging, and an allocation of € 1m has been spent on information, management and training - the three prongs of an integrated approach which includes access to credit at the preferential rate of 3% over three years.

Loans have been given to small businesses including mechanics, masons, shoemakers, tailors and childcare centres. In 80% of cases one or two people make up the entire production unit.

European support covers all of SIDEC's activities, including training for its managers and support for the Seychelles Institute of Management. Sessions organised with the Seychelles Polytechnic focus on the quality of finished products, and an annual fair for SMEs, which attracted 95 participants in 1996 and 140 in 1997, develops marketing skills.

In 1996 the Seychellois government in conjunction with SIDEC (see box) launched a project called YES (Youth Enterprise Scheme). The aim is to respond to public-sector staff cuts by providing interest-free loans over five years.

8th EDF projects are directed towards developing existing enterprises where foreign exchange is vital for purchasing materials and equipment, and regional co-operation instruments encourage export potential. This applies above all in the craft sector, for instance in the production of scented candles or exotic fruit liqueurs.

4. Social sectors

In addition to the schemes outlined here, which contribute generally to poverty alleviation and sustainable development, the EU supports an AIDS programme begun by the Seychellois Ministry of Health and assisted by two local NGOs. Leaflets on AIDS prevention measures, blood test kits, a cold room for keeping blood donations and computer training are in line with the thrust of the general AIDS programme conducted by the European Community in all the ACP States.



The Seychelles government now has to decide how to correct the budget deficit and the balance of payments without causing too much social upheaval. A study financed by the EU to help define a practical macro-economic strategy was undertaken at the start of 2000.

Regional co-operation in the Indian Ocean

For developing countries, particularly small ones, regional co-operation is an important stage in the process of becoming part of the community of nations. The EU, itself a group of Member States, naturally supports initiatives of this type.

Title XII of the fourth Lomé Convention is entirely given over to this topic, and Article 7 urges the EU-ACP partners to “give special importance and high priority to regional co-operation and integration”.

As in the Caribbean, large areas of Africa, and the Pacific, the ACP countries in the south-west Indian Ocean receive EDF resources under a Regional Indicative Programme (RIP). The RIP supplements the NIPs, the aim being to obtain a regional “added value”, pool know-how and experience, harmonise policies, strategies and standards, and implement projects and programmes of general interest.

The authority which enshrines these shared objectives is the Indian Ocean Commission (IOC). The increasingly open international arena in which it operates obliges the IOC to be an assertive body.

I. The Indian Ocean Commission

1. A new way to co-operate

The General Co-operation Agreement between the governments of Madagascar, Mauritius and the Seychelles establishing the IOC was signed in Victoria on 10 January 1984. Two years later, to the day, the Islamic Federal Republic of the Comoros and the French Republic, acting on behalf of Réunion, became full members, having previously been observers. The IOC is therefore a regional co-operation body associating four ACP States with a French and European overseas region.

The operation of the IOC involves various bodies up to the highest levels. A summit of heads of state of the IOC nations, for instance, was held in

The Victoria Agreement, Article 1

Under Article 1 of its founding document, the Indian Ocean Commission supports co-operation in the fields of :

- diplomacy;
- economic and trade cooperation;
- agriculture, fisheries, conservation of resources and ecosystems; and
- culture, science, technology, education and the law.

Madagascar in 1991, and a second took place at St Denis, Réunion in December 1999.

The programme on the second occasion included strengthening the political dialogue between members, institutional reinforcement of the IOC, upholding peace and regional security, economic integration, sustainable development and cultural co-operation. The event’s Final Declaration allowed for a summit every four years, and Madagascar will host the next one.

The IOC’s executive is a Council made up of a government-appointed representative from each of the ACP countries, generally from the foreign ministry or ministry of regional co-operation. The Réunion representative is the island’s *préfet* or, when France holds the IOC presidency, a government minister. The Presidency of the Council rotates among the member countries.

Each country appoints a permanent liaison officer (PLO) to a Committee of PLOs, which meets twice a year. The IOC headquarters are in Mauritius, the site of the Secretariat-General, a small administrative department concerned with co-ordination and representation.

The IOC has various technical advisory committees which in turn have given rise to management committees. The latter are responsible for supervising the implementation of projects or programmes that have been approved by the Council and for which financing has been mobilised.

The programmes, each run by a director and a small team, target key sectors such as the environment, trade, fisheries, crafts, tourism and culture. The EU finances almost all the projects from the EDF, and from the European Regional Development Fund (ERDF) in the case of Réunion.

2. Projects of regional interest

IOC objectives have been reflected in the focal sectors of successive RIPs. Lomé I, for instance, concentrated on transport and the increased value of human resources. Under Lomé II and Lomé III, Community aid was allocated mainly to air and sea transport, the management of marine and other natural resources, meteorology, foreign trade and tourism. The 7th EDF placed special focus on environment and foreign trade, plus three other projects in telecommunications, EU-IOC technical co-operation and applied agricultural research.

A number of projects have now been completed, with varying degrees of success. The development of crafts and the promotion of aromatic and medicinal herbs, for example, do not seem to have come up to expectations. An international telecommunications centre has been operational in the Comoros since the end of 1995 but it is difficult to evaluate its efficiency.

The meteorological project, on the other hand, has been a clear success and the work it achieved is likely to continue in one form or another. This project gave rise to Réunion’s International Reference Centre for Tropical Cyclones, and has helped several countries acquire scientific equipment to study the region’s weather.

Resources allocated to EU-IOC co-operation

(million €)	Lomé I	Lomé II	Lomé III	Lomé IV 91/95	Lomé IV 96/2000
EDF / RIP	8.3	20.0	29.0	30.0	30.0

The Regional Tuna Project is the oldest IOC project. It has mobilised some € 13m since 1985 and proves the usefulness of European regional co-operation in a maritime zone where other foreign fleets fish without any *quid pro quo*. Extensions are expected in the future for monitoring, inspection and surveillance, harmonising legislation and training sailors.

The new RIP signed in April 1997 allocated € 25.5m to IOC projects, with an additional indicative sum of € 4.5m earmarked for “non-IOC” operations. The proposed allocation is 50% to protect the coastal and marine environment and fisheries, 35% to develop trade, and 15% for the framework technical co-operation programme and other non-focal sectors. The latter include alleviating poverty, trading in cultural goods and developing human resources, especially through regional training and research institutions.

Among the regional projects under way, the most important is that on the fruitfly. This is spending almost € 2m on research, extension services and co-ordination, and complements national projects in Mauritius, the Seychelles and Réunion. Work to control this devastating pest has become even more urgent since a new species, *Bactrocera dorsalis*, appeared in Mauritius in June 1996. The Comoros and Madagascar will attend the next meeting of the programme’s steering committee as observers.

The Regional Environment Programme

Population growth, urbanisation, industrial development and modernisation of agricultural methods are causing serious deterioration in the environment of the IOC region. This, in turn, impedes development because of its effects on living conditions and on income from tourism.

Destruction of coral reefs, ill-considered removal of sand from the coast, uncontrolled dumping of industrial and household waste and two centuries of deforestation reduce the profitability of crops and fisheries. Pollution and reduced biodiversity also make the islands less attractive to visitors who come to visit the beach or to dive.

At the same time, many local people are starting to oppose the further development of tourism. They no longer feel free to stroll on their own beaches, and they have to put up with the sewage from large hotel complexes.

Despite a growing awareness of global environmental issues, decision-makers in the public and private sectors, local people and visitors all have a different attitudes and short-term interests. How can they be helped to co-operate responsibly? This is the question underlying the Regional Environment Programme (REP), which began in January 1995.

Based in Mauritius, the regional directorate of the REP decided to formulate and carry out a regional plan of support for the integrated management of coastal areas. Aimed at sustainable development, the plan treats the coast not as a place but as a system. Its formulation has been a complex process that takes into account the views of many different groups.

To manage common resources at regional level, the technical solutions and the legislative basis must follow the identification of common problems. This first step requires communication networks and shared standards for presenting information.

Tools for collecting and sharing information include national audits, which have so far been tested through pilot projects at Menabe in western Madagascar, Itsandra in the Comoros, Grand Anse in the Seychelles, the south-western region of Mauritius and the Parc des Lagons in Réunion. Thematic workshops provide a way to learn from countries that have already shown success with particular problems such as coral protection, ecotoxicology, coastal erosion and pollution.

The REP supports the intersectoral committees that have been set up in each of the countries to tackle environmental problems. It also funds training schemes and supplies equipment to local agencies.

The end of 1997 saw widespread action on environmental issues in the Indian Ocean. In December, an enlarged IOC meeting that included the islands of the Maldives, Cape Verde and São Tomé examined

waste management strategies for islands. In February 2000, before the official close of the REP, a seminar identified specific sensitive areas needing support, including a coastal observatory in Madagascar, waste management in the Comoros, and science and technology in Réunion. The seminar also studied how best to transfer responsibility for these projects to the appropriate national organisations.

The REP has a large enough budget to allow it to carry out an environmental audit for each country, develop the necessary tools and skills, and to create operational networks to monitor the reefs and marine ecotoxicology. It is also producing a CD-ROM to describe its work to the public. All these tasks will be long and exacting.

Trade between islands : the PRIDE programme

Set up in 1996 for five years, the integrated regional programme for the development of trade (known by its French acronym, PRIDE) addresses the lack of trade between islands. Despite the comparative closeness of the islands and the benefits of trading in complementary goods, trade between islands accounts for less than 3% of the region's total trade.

Based in Madagascar, PRIDE was set up as part of the effort to improve regional integration. The programme remains appropriate to the wider horizon that has opened up post-Lomé, as a result of efforts by the WTO and the IOC, but its mission remains to develop trade relations between the IOC countries. PRIDE's budget of € 10.5m comes essentially from EDF resources.

PRIDE has two strands: macro-economic and micro-economic. The macro-economic strand establishes a "general action framework" through which IOC members undertake to abolish, according to an agreed timetable, the regulations and tariffs which obstruct free trade between the islands.

The micro-economic strand has a fund of € 5m with which to support the region's businesses through loans and subsidies. Aimed primarily at the private sector, the programme encourages companies to work together to improve their competitiveness and the quality of their goods. Companies receiving PRIDE support may compete with one another.

PRIDE organises events such as a meeting between meat buyers and sellers on Madagascar, an introduction to the Comorian market for Malagasy exporters and a hotel and catering fair in Seychelles. It provides training in foreign trade, quality standards and marketing, and encourages joint promotions such as at European tourism fairs. PRIDE also supplies general business information: the IOC-InfoNet database on the IOC website, for instance, carries statistics, regulatory texts and details of business opportunities.

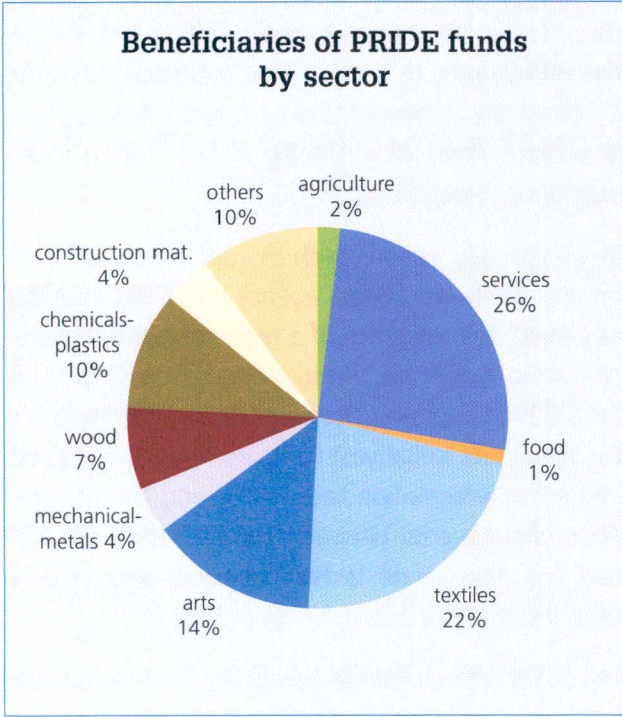
In the early days the programme's ambitions were thwarted by conflicting national laws on customs duties, investment codes, competition law, visas and standardisation, and by countries' varying degrees of willingness to change these. A further problem is that the economic situation of the countries concerned differs greatly, so that private traders do not speak with one voice.

After a slow start, PRIDE has increased the amount of real work it does. PRIDE business centres have gradually been set up in the chambers of commerce of the partner countries. As of 31 October 1999, € 1.27m in PRIDE funding had been allotted to 683 companies, mainly for seminars, exhibitions and training. A preferential tariff is now in force between

ge rules; assessments of the IOC countries' Chambers of Commerce; and the involvement of the PRIDE project in EBAS.

In the programme's regional exchanges, the role of the private-sector and facilitators should be supported more strongly by the EU administration, problems associated with economic integration zones such as SADC and COMESA should be investigated, and strategic thought given to the positions of the region's different economic actors.

Although PRIDE is anxious to make its operations more visible and to build up direct links with the private traders who are its principal beneficiaries, its work still hinges on decisions taken by the IOC partner countries.



The Regional Tourism Programme

The Regional Programme for the Development of Tourism (RTP) was launched in 1994 and is administered in the Seychelles. Under the 6th and 7th EDFs it received over € 6m to supplement the tourism components of the national programmes, with the aim of creating a regional dimension to tourism.

The RTP has acted to improve the formulation and administration of tourism policies and to help with staff training, both locally and on courses abroad. Its most important contribution has been in promotion, including the distribution of 6,000 items of direct mail advertising and window banners to European travel agencies, the creation of a regional photographic library and website, support for the setting-up of partnerships with tour operators, and participation in international tourism events.

Madagascar and Mauritius. Encouraging declarations have been made by the authorities of several countries about multiple-entry visas for business people in the region.

Priority activities for 2000-2001 are assistance in the field of trade in order to follow international developments, for instance those of the WTO and the new EU-ACP partnership; training and cooperation between customs services; definition of arbitra-

While the IOC countries compete fiercely with other tourist destinations such as the Caribbean and East Africa, there is also no lack of competition between the IOC countries themselves. Co-ordination is therefore not easy, especially as a large number of external factors affected the management of the RTP. There are nevertheless many general advantages to be gained from diversifying the clientele and promoting ecotourism.

The University of the Indian Ocean

Culture provides an element of social cohesion in the Indian Ocean. Despite the diversity of customs even within each country, activities such as music, traditional sports and cookery have always reinforced the region's identity. Why could not the same be true of science and business? The University of the Indian Ocean project aims to give the region's researchers the opportunity to follow academic careers on their home ground.

The EU is supporting, to the tune of € 1.925m, the setting-up of a network for research and exchanges of teachers and students. This "virtual" university focuses on the environment, business management and new technology, in line with the concerns of national and regional programmes.

The activities of the Réunion-based project include listing existing training and research centres, drawing up programmes, formalising agreements between institutions, stepping up collaboration with the business community and language training. Since the pilot phase, seven long- and short-term training sessions for 170 students have been successfully carried out. Three new study programmes have been set up, and 72 scholarships awarded.

The IOC summit on Réunion ratified the ongoing concept of an "open university". The task is now to find the most appropriate mechanisms to administer and fund the new university.

3. Prospects for the IOC

The IOC's work, strengthened since the IOC Summit, provokes both impatience and scepticism. While the IOC has encouraged the creation of trade in many areas, its operations are criticised as slow and cumbersome. These problems have been reflected in recent years by a frequent changes in programme directors and a disbursement rate that fluctuates wildly from one project to another.

In less than ten years, however, the IOC has succeeded in building bridges between islands that are geographically close but culturally different and unevenly developed. Multilateral dialogue needs to be based on shared concerns, and the IOC has certainly helped to identify these more clearly.

Compared with other regional co-operation organisations, the IOC covers a small market: just 15 million inhabitants. In that sense the regional structure it advocates, remarked one high-ranking Mauritian, is perhaps more of a "family affair" than a major economic undertaking.

Thanks to IOC actions such as support for art exhibitions, the Matera press agency and a regional literary prize, the existence of a regional cultural identity can no longer be questioned. A feasibility study for the PARITE project (Regional Support Programme for Telematics Initiatives) has confirmed the region's interest in information technology and communications. Agreements between the IOC and UNESCO and the Agence de la Francophonie also help to raise the region's international profile.

The IOC's first challenge has been to introduce co-ordination, solidarity and regional awareness among the people of the islands. In the medium term its role could be extended to create a pool of regional expertise to be used both upstream and downstream of individual projects.

II. Other regional co-operation bodies

In August 1994 the new South Africa became the 11th member of the Southern African Development Community (SADC), a "regional common market" that also comprises Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. South Africa's considerable economic weight overturned the pattern of regional trade in this part of the world.

Although the islands of the Indian Ocean lie hundreds of kilometres away, they take a close interest in events in the large countries of southern Africa. The end of civil wars and of *apartheid* has created huge development potential that the IOC countries may be able to exploit.

Mauritius and Seychelles have therefore joined the SADC, while Madagascar and Réunion have asked to be involved with the SADC's work. South Africa, in turn, is now partially integrated into the Lomé Convention. SADC is anxious to make rapid progress in the economic integration of its members.

Another organisation of this type is the Common Market of Eastern and Southern Africa (COMESA), which covers 25 countries and has existed since 1983. Eight COMESA countries are also in the SADC fold, but since 1994 it has not been possible for new members to belong to both.

In March 1995 the IOC brought together representatives of SADC, COMESA and the Community of East African States at a ministerial meeting on the Cross Border Initiative (CBI), held in Mauritius. The CBI was launched in 1992 under the auspices of the EU, the World Bank, the IMF and the African

Development Bank to encourage private investment, trade and payments between participating countries (Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Uganda, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe). Commitments endorsed by the CBI are similar to those of PRIDE: provisions on the free movement of people and goods, and the liberalisation of exchange and investment systems - with all the national reforms which this implies.

In an even wider context, a new body based on Southern Africa, Australia and India was set up in 1997: the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), for which Mauritius took the initiative. The Association's objective is to create an "economic, industrial and commercial area which is viable, sustainable and prosperous [and which] complements the existing regional organisations." To create a market large enough to carry weight in international free trade, other Asian, east African and Middle Eastern countries could join IOR-ARC in the future. France has made a request along these lines on behalf of Réunion.

The islands of the Indian Ocean, together with those of the other oceans, sent representatives to a 1984 world conference on the sustainable development of small island economies, organised in Barbados by UNCTAD.

All these regional initiatives reflect the dynamism created by a growing number of partners. Competition is an important factor, but so is the desire to make sure that each country shares in the development of the region as a whole, without renouncing the old links with Europe. Whether they take the form of modern co-operative agreements, membership of the British Commonwealth or shared use of the French language, these links remain important.

Participation by the member countries of the IOC in other organisations and regional/international initiatives.

	ACP	IOC	COMESA	Commonw.	Fr.-lang	CBI	SADC	IOR	EU
Comoros	▲	▲	▲		▲	▲			
Madagascar	▲	▲	▲		▲	▲		▲	
Mauritius	▲	▲	▲	▲	▲	▲	▲	▲	
Réunion		▲			▲				▲
Seychelles	▲	▲	▲	▲	▲	▲	▲	▲	

III. Réunion and regional coopération

Réunion, a département and region of France, belongs to the EU and not to the ACP Group. It is, however, very different from the other regions of Europe. With a per capita GDP that is only 43% of the Community average, very high population growth and unemployment of 35-40%, Réunion is among the disadvantaged regions that receive special provision under Article 299-2 of the Amsterdam Treaty.

Réunion receives financial aid from the European Commission through the Structural Funds: the European Regional Development Fund (ERDF), the European Guidance and Guarantee Fund (EAGGF), the European Social Fund (ESF) and the Financial Instrument for Fisheries Guidance (FIFG). These are associated with national and local funds in a Single Programming Document (SPD), supplemented by an integrated operational programme (REGIS II). Réunion also benefits from many bilateral co-

operation schemes.

The geographical situation and economy of Réunion make the island a natural partner of the Indian Ocean ACP States. As a result, Réunion joined the IOC in 1986.

The main IOC projects in which Réunion has been involved cover tuna (making use of Réunion's national support centre), tourism (through the Réunion Tourism Committee), fruit fly control (consultancy and research), environment (preliminary audit and recruitment of the co-ordinator), PRIDE, the Météo programme and the University of the Indian Ocean.

Since it is not eligible for EDF support, Réunion finances its contribution to regional co-operation by other means:

- ERDF: in the second Regional Development Programme (RDP II), FF 3 million a year is allocated



under the "regional co-operation" heading for 1994-99; RDP III will cover the period 2000-2006;

- the contractual plan with the French Government will contribute FF 1 million per year for the period 2000-2006; and
- contributions from local communities.

The "Conseil Régional" of Réunion has a seven-member commission exclusively devoted to regional co-operation, a Vice President with delegation of authority, a Directorate attached to the Directorate General for Services as well as a specific budget line of around FF 12 million for 2000, an increase of more than 56% compared with 1999.

In all, Réunion has a regional co-operation budget of at least FF 15 million a year, some of which is managed jointly by the central government and the department, under the Plan or EU programmes.

Wanting to play the role of an "active frontier of the EU" in the Indian Ocean, Réunion stresses three principal ways to develop mutually advantageous regional co-operation. These are, respectively, complementarity of actions, reciprocity of exchanges and partnership for improved co-operation. Geographically, the partners in this co-operation are divided into three "circles" depending on their distance from Réunion.

In the first circle are the Member States of the IOC; into the second circle fall southern Africa, especially South Africa, plus India and Australia; while the third circle covers the Asia-Pacific region and Québec.

Réunion's membership of the IOC helps both France and the EU represent their interests in the Indian Ocean. Economic issues are complicated, however, by the relations between Réunion and its regional trading partners, and by the fact that French economic and trade rules differ from those of the ACP countries.



In their quest for regional co-operation, the Réunion authorities rely on both the Lomé Convention and the provisions of the EEC Treaty. They have also made bilateral agreements with individual countries, such as Madagascar, and with other regional organisations. Legal changes drawn up by the French secretariat for Overseas Affairs promise to give the Réunion administration more power in these matters in the future.

For its IOC partners, Réunion is an important source of political and financial stability, and of human, scientific and technical resources. Réunion is therefore a party at several levels - European, governmental and decentralised - to the regional co-operation that will aid the island's own development.



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